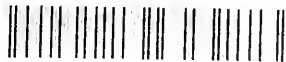
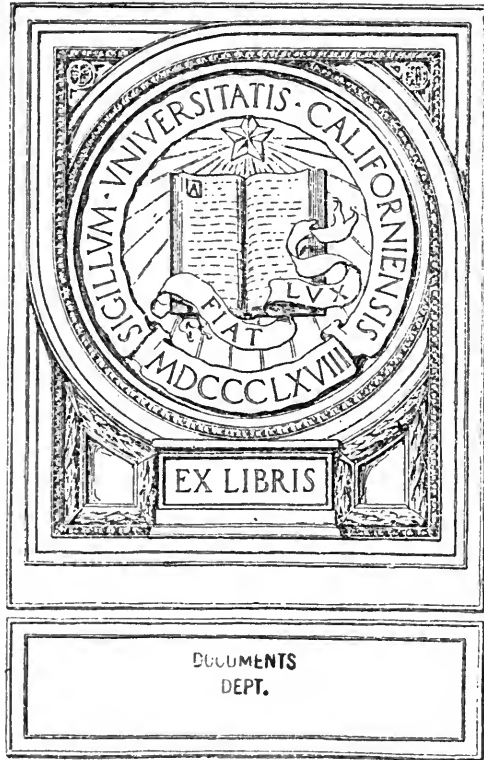


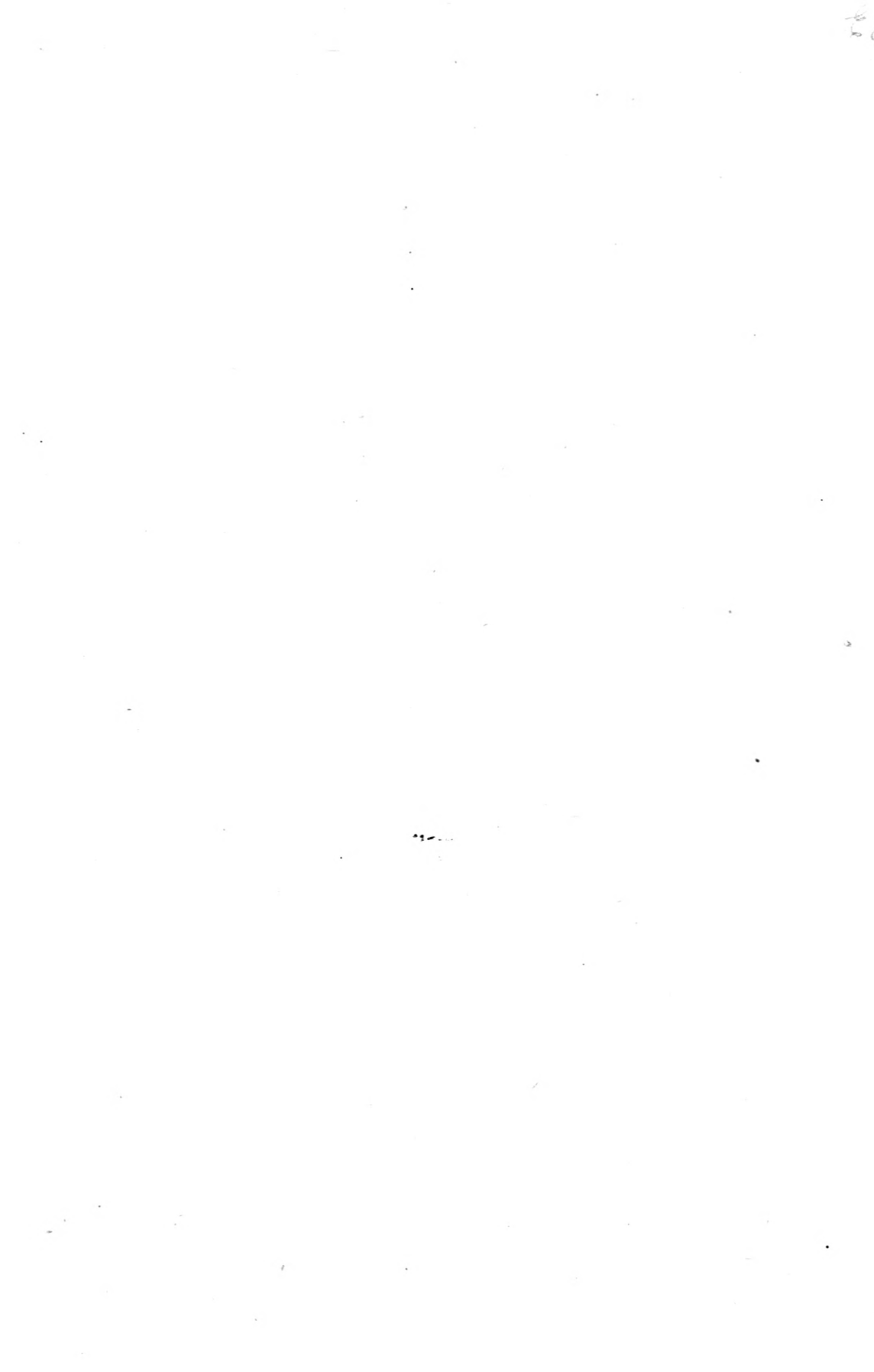
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Some Aspects of Co-operation in Germany, Italy and Ireland.

(A REPORT)

BY

M. L. DARLING, I.C.S.

Formerly Joint Registrar, Co-operative Societies, Punjab.

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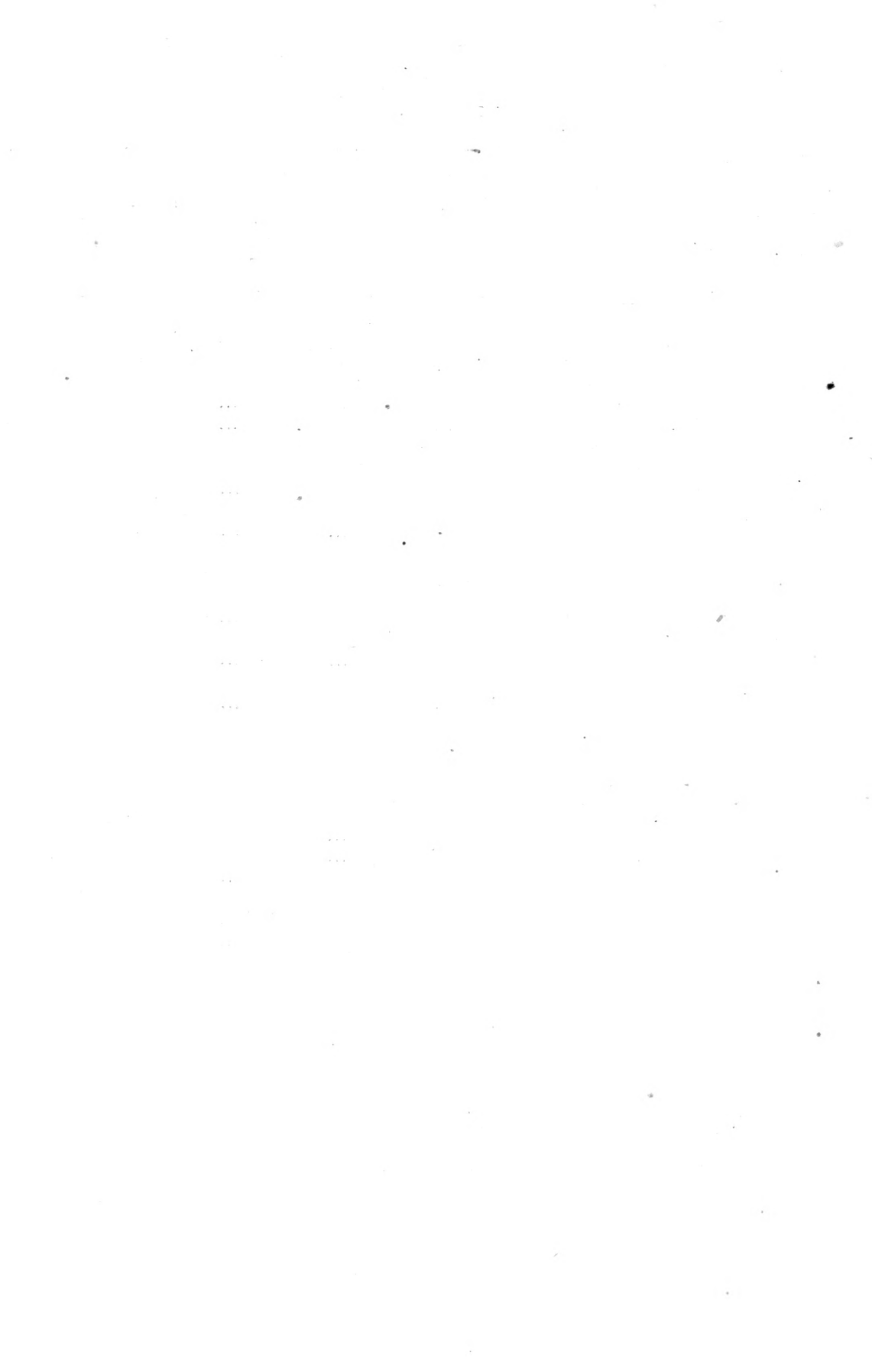
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PREFACE.

THIS report is the fruit of a tour made last winter (1920-21) in Germany and Italy.¹ It also represents the results of over three years' practical work and study in the Punjab, where there are now over 8,000 co-operative societies. Throughout my tour my one aim was to see and hear everything that could be of practical use to India; and similarly throughout this report my sole object has been to share with others, less privileged, the fruits of an intensely interesting experience. This explains at once the choice of subjects and the method of treatment. Primarily I have written not to show Co-operative achievement—abler pens have done this—but the actual working of the movement. I have read many books on Co-operation, often works of deep interest, but few that I found of much practical assistance to the builder, and it is for the builder rather than for the architect that I have written. This method naturally involves much technical detail. To make the latter intelligible and, if possible, readable, a number of individual societies have been described, which show perhaps more clearly than anything else what Co-operation means to the individual co-operator. If, by unexpected chance, this report falls into the hands of the general reader, I would venture to suggest that whatever else is omitted some at least of these accounts should be read.² Altogether 98 societies (exclusive of federations and unions) were visited, and so far as possible typical institutions were chosen for inspection.³ In Germany, believing that concentration would be more fruitful than a wider survey, I divided most of my time between Bavaria and the Rhineland, probably the two best fields in the country for the study of agricultural Co-operation. In Italy, with one exception, all the societies I saw were in the Northern half of the peninsula. Consequently there is little reference in the report to the South, where the movement is said to be much less developed.

As few statistics as possible have been given, partly because the war has made them difficult to obtain, and partly because they are not easy to digest. Conversion of the mark and lira for any *post-war* figure has been done at 200 marks and 80 lire to the pound. Owing to the great depreciation in German and Italian currencies conversion at par would have given a totally wrong impression. A figure has, therefore, been taken as nearly corresponding as possible to the average rate prevailing last year.

¹ Eight days were also spent in Ireland last summer.

² e. g. paragraphs 11, 113, 115, 128, 129, 156, 165, 175 and 182.

³ In Germany 59; Italy 28; Ireland 11.

I am so constantly asked what is meant by a co-operative society that it will perhaps be as well to indicate very briefly how it differs from a joint stock company. There are two main differences. One touches aims and the other control. In the joint stock company control vests in the shareholder in proportion to his shares. A man with 10 shares has ten times as much voting power as a man with one. *Capital therefore dominates.* In the co-operative society the rule of one man, one vote, is axiomatic. *Rich and poor are therefore equal.* Secondly, a company's sole object is *profit*, and all profit is distributed in ratio to shares. On the other hand the object of a co-operative society is not profit but a specific *service*, which it seeks to render to its members on the best possible terms. If the service is the supply of household requirements, the society is called a store; if the provision of banking facilities, a bank or credit society; if the sale of members' produce, a sale society; and so on. All money raised or borrowed is paid for at a fixed rate like any other commodity required by the society. For instance, dividend on shares is usually limited to 5 or 6 per cent. If after discharging all liabilities any surplus remains, it is distributed in strict proportion to the amount of business done by each member with the society. Thus a member who has bought £10 worth of goods will receive ten times as much as one who has spent only £1. The principle underlying the payment is not a distribution of profit, which technically does not exist in a co-operative society, but a refund of part of the price previously paid for the goods. Broadly, therefore, whereas a joint stock company exists to exploit human need for the benefit of capital, a co-operative society exists to make capital serve human need. And so the motto of every joint stock company is profit, more profit and still more profit; or in blunter language, every company for itself and the devil take the hindmost. Whereas the motto of every true co-operative society is 'each for all and all for each.' The difference is fundamental and explains why Co-operation is spreading so fast and so far.

I cannot conclude this prefatory note without expressing my deep gratitude for the kindness lavished upon me by fellow-co-operators wherever I went. It made me realize the strength of the co-operative tie—one of the few international ties that the war has not entirely snapped. Alike in Germany and in Italy nothing could have exceeded the generosity with which time, labour and information were placed at my disposal, often by extremely busy men. If in the following pages praise is mixed with blame, it is because no human institution is perfect, and I would beg all concerned to believe that I have endeavoured, to

the best of my ability, to give a faithful account of all I saw and heard. Where so many have helped it is almost invidious to mention names, but a special word of gratitude is due to Mr. H. W. Wolff for having advised me to go to Germany and for enabling me by his introductions to do so. I doubt if any other country can have so much to teach India, as the Indian system is largely modelled upon the German. Of the many others who stand out prominently in my memory for unfailing help and courtesy are Mr. A. Wotzell of the Ministry of Labour, who placed his library at my disposal; Messrs. H. Barbour¹ and J. C. Adams, who showed me so much in Ireland; Herr Regierungsrat Gennes, President of the Imperial Federation at Berlin; Dr. Anwander, President of the Bavarian Union of Urban Banks, and the Secretaries of the Agricultural Unions at Bonn, Coblenz and Munich. In Italy Sir Edward Capel Cure, K.B.E., of the British Embassy at Rome, S. Vergnanini, Secretary of the Socialist National League, Dr. Facchini of Ravenna, Dr. Pesenti of Bergamo and M. Constanzo of the International Institute of Agriculture at Rome were of special assistance. I had, too, the privilege of meeting some of the veterans of the movement, associates of Raiffeisen and Schulze, notably His Excellency Luigi Luzzatti, Herr Geheimrat Havenstein, Herr Justizrat Cruger, and Herr Okonomierat Caspers. Last but not least must be mentioned Mr. J. R. Cahill's admirable Report on Agricultural Co-operation in Germany which was my *vade mecum* throughout my tour in that country.

The 12th July 1921.

MALCOLM DARLING.

¹ Chairman of the Irish Agricultural Wholesale Society.



INTRODUCTION.

Après la guerre le deluge. For four years of war every economic law had been broken, and by a hundred artifices every symptom and consequence had been suppressed. When at last 'peace' came, the dam burst and Europe was almost submerged. Russia finally went under, and Hungary was nearly sucked down in her wake. Austria for the moment survives but only by artificial respiration, while Germany, at one time threatened with bankruptcy, famine and chaos,¹ is still adrift on the wreckage of her shattered empire. Even the victorious countries have not escaped. In France the franc has touched 68, and in Italy the lira was recently worth less than 2½d.² Revolution has always been preceded by depreciation of the currency, and at one time many thought that Italy was in danger. Last September (1920) her factories were seized by the workmen and the masters temporarily dispossessed. In district after district there have been agrarian disorders, and in Sicily large tracts of land were forcibly seized by the peasants. Everywhere on the continent food was scarce, prices prohibitively high and 'morale' profoundly shaken. Meanwhile ark after ark has been planned to save Europe from the flood, but so far only one has succeeded in attracting men of all countries and giving them some measure of security and hope. As a leading Italian co-operator put it—"the war has buried in its ruins men and their institutions, philosophical systems and political and economic doctrines, but it has given wings to Co-operation."³

2. Never has Co-operation been more needed, and never has it spread more rapidly. By the Peace of Versailles, Germany lost over 2,300 rural societies. The deficit was made good in nine months. In the two years following the war 10,000⁴ societies were started, and the pace is still⁵ maintained. For Italy accurate statistics are not available, but progress has been as rapid, if less sure than in Germany. In 1915 there were 7,000 societies, and at the end of 1920 probably as many as 15,000, which means that the number

¹ In 1919 Munich was for a month in the hands of the Bolsheviks. There have been many other disturbances.

February, 1921.

² Inaugural address of the President of the Congress of Village Banks, September 1918.

³ The actual number is 9,993. The net increase is, however, much less as 1,701 societies were dissolved and many more were lost through the peace treaty.

⁴ In the first four months of this year nearly 2,000 societies have been opened.

must have nearly doubled since the war, as comparatively few societies were started while it lasted.¹

3. There are several reasons for this startling growth in Italy and Germany. One is common to both, if not all countries. After the war

Reasons for this Growth.

(a) The Profiteer.

everyone expected a better world, and everyone found a worse. Only one class prospers, the profiteer. The profiteer has been with us for at least 100 years, but it was not till the war that he entered into his kingdom. Everyone hates him, and yet everyone profiteers if he gets the chance. The country profiteers at the expense of the town, and ring, syndicate and trust at the expense of the country. The towns are hungry, yet the farmer exacts the uttermost farthing for his produce.² The farmer in his turn has to purchase everything he needs at exorbitant rates. The capitalist or, as I would rather call it, the profit-seeking system, and not the individual is to blame. Based upon profit, this system inevitably breeds the profiteer. To dethrone him the system must be mended or ended. The Italian Socialist is emphatic for the latter; the German peasant proprietor would be content with the former. Amongst the many remedies suggested, nationalisation, co-partnership, guild socialism and the like, Co-operation is the only one that in all countries is definitely established, and the only one, therefore, that can deal forthwith with the evil. Stated briefly this is the main reason for its sensational growth since the war, and this is why the co-operative store is spreading so fast in Italy and the supply society in Germany.

In Italy the feeling against the profiteer and the system

(b) Political Rivalry in Italy.

he represents is even stronger than in Germany. The expressed aim of the Socialist party, which controls one of the two great blocks of co-operative societies in the country, is to destroy capitalism and establish collectivism in its place. The Catholics, on the other hand, who control the other important block of societies, are strongly entrenched in individualism. The hottest rivalry prevails between the two and, as the co-operative society is regarded in Italy as a source of political strength, both parties compete feverishly with each other to form societies. This factor, which has had much to do with the rapid spread of the movement in

¹ A recent official estimate (in the *Bollettino del Lavoro*) puts the number of societies on the 15th July 1921 at 19,510, but the leading Socialist Co-operative Journal would deduct at least 10 or 20 per cent. on account of societies that have ceased to function. Less than 30 per cent. of the societies are in the Southern half of the peninsula (i.e., from Rome Southwards) while well over half are in the four Northern provinces of Piedmont, Lombardy, Venetia and Emilia.

² "The Italian farmer has again preferred, as a rule, to hold back his wheat crop in the expectation; that he will be in a position to secure a better price from the necessities of the city populations"—*The Observer*, 2nd October 1921.

Italy, has only recently come into play, as it is only since the war that the Catholics have begun to take an open part in politics.

Only less important than political rivalry is the lavish financial assistance given by Government.

(c) State Aid.

Millions of lire have been poured out, mainly in the hope that Co-operation would prove a sedative to the agrarian and industrial ferment produced by a long war upon a not very phlegmatic people.¹ Societies have sprung up like mushrooms, some with no more resource than a few 10 lire shares, believing that unlimited funds would be placed at their disposal by Government. Even Italians are alarmed at the appearance of so many new societies, some of which have already had to be liquidated. The danger is accentuated by the almost total lack of organization for inspection and control, which has therefore had to be improvised in haste with insufficient funds and staff. The question of State aid is an important one and will be discussed later.² Meanwhile it may be noted that the great³ Luigi Luzzatti himself considers the present indiscriminate distribution of subsidies to be highly demoralising.

4. Germany is in sharp contrast to Italy. Politics are eschewed and the public exchequer is empty.

Economic Condition of
Germany after the War.

Progress therefore owes nothing either to political rivalry or to public⁴ grant. The feeling against the profiteer is strong, but at bottom the driving impulse is necessity, the hard, dire necessity of defeat and economic paralysis. "The very perfection of social and economic organisation in Germany" says a British Government report "has proved her undoing. No other nation could have liquidated and thrown into the fighting line the whole of its resources in men and material. . . . When, however, her fighting shell broke down at one spot, the whole thing collapsed, and the shell was found to be practically empty."⁵ In the 25 years before the war the German population increased by 40 per cent.; yet in spite of a poorer soil than that of Great Britain, thanks to vast imports⁶ of chemical manures and concentrated feeding stuffs, Germany was able unaided to feed nearly the whole of her population of 67 millions, and withal to feed it better than either England, France or Italy fed

¹ The League of ex-soldiers alone has been given 300 million lire to purchase land for co-operative farms.

² Paragraph 50.

³ Great, because he is the founder of Co-operation in Italy. He has also been Prime Minister, see paragraph 143.

⁴ House-building societies are a partial exception, see Chapter 10.

⁵ Starling, *Report on Food Conditions in Germany* (1919), p 13

⁶ Valued in 1913 at £68 millions.

theirs. Only the finest organisation and the highest development of scientific agriculture could have achieved this. The war paralysed the one, and by cutting off supplies half destroyed the other. The productivity of her soil diminished by 40 per cent.¹: 55 per cent. of her livestock was lost,² and food supplies were 'cut in half.'³ The mark once worth a shilling shrank to less than 3 farthings. Death and disease increased enormously, and the nation is described as 'broken in body and spirit.'⁴ Yet, in spite of this, in the two years following the war 10,000 co-operative societies were opened. There could be no finer tribute at once to the power of Co-operation and to the unconquerable spirit of man.

5. Apart from moral influences, two factors have combined to produce this result, an efficient organisation and a first rate co-operative banking system. Through an elaborate system of Federations and Unions, which is described in chapter 2, experience, capacity and enthusiasm, all highly disciplined and trained, have been brought to bear upon every part of the country. As in Italy, societies have arisen in hundreds, but, unlike Italy, as soon as a society is formed, it comes at once under skilled guidance and control. Progress therefore is sure. It is also rapid, because money is available. On the agricultural side this is due to the village bank, of which there are now nearly 19,000. In Italy and Ireland village banks are at a standstill, if not declining, because high prices have turned the farmer from a borrower into a depositor, and there is no means of using his deposits. In Germany, too, war has made the farmer prosperous and large deposits have accumulated. Thanks, however, to an admirable system of central banks every pfennig has been absorbed, so that when the time came for re-construction and development abundant capital was available. Germany is a splendid example of self-help, as Italy is a warning of the danger of State aid. But Italy, too, is learning the lesson that sooner or later all must learn who ignore first principles. When last winter the tide of Government grant suddenly ebbed, progress was arrested and many societies found themselves stranded. In consequence both Catholic and Socialist are now doing their utmost to develop banking systems of their own, the one, as in Germany, to draw the surplus wealth of the country side and the other the deposits of labour. If they succeed, Co-operation in Italy will be on firmer ground.

Importance of Organisation and a good Banking System.

¹ Starling, page 13.

² *Ibid*, page 15.

³ *Ibid*, page 22.

⁴ This applies primarily to the 50 per cent. living in the larger towns and industrial area. The farmers have always had enough to eat, but even they, as I can testify from personal experience, may be said to be 'broken in spirit', though not in body, by the huge casualties of the war and its disastrous issue.

6. On the 1st May 1921, there were in Germany 33,345

Achievement in Germany.

(a) General Figures.

agricultural societies,¹ which are said to include 80 per cent. of its 2½ million proprietors. Excluding towns with a population of over 20,000, there is one society for every 1,175 inhabitants. Of urban societies there were at the end of 1920 over 12,000 and, as they have been rapidly increasing since, the total number of societies in Germany at present² must be at least 47,000. Membership is difficult to calculate exactly. The agricultural societies claim 3½ million members,³ and 1,300 urban stores affiliated to a federation at Hamburg claim another 2¼ millions. Total membership may therefore be put at about 7 millions families, embracing between 25 and 30 million souls or about half the present population of Germany⁴. The importance of Co-operation cannot therefore be disputed.

In the town the co-operative store, and in the country the village bank is the most important type.

(b) The Village Bank.

The latter is still increasing more rapidly than any other form. After 60 years⁵ experience Germany believes as firmly as ever in the village bank, and still regards it as the foundation of her agricultural co-operative system. Morally and materially there could be no better foundation; materially, because credit is the basis of all business, and morally, because in the village bank credit is based as much upon character as upon property. Moreover, the village bank is a school of business where the humblest peasant may take his diploma. Nor is it necessary that only banking should be done. Agricultural requirements are commonly supplied, and members' produce is often sold. In this way the village bank is becoming more and more the business centre of the village, and through its moral influence it continues to uphold the best village traditions. No serious doubt is felt as to its future utility. Intensive production and the finest organisation are needed to solve the many economic problems arising out of the war. Manures, machines, improved breeding, and first class seed are more than ever needed. Heavy taxes, too, will have to be paid. For all these things money is indispensable. A network of village banks will therefore be required to supply the necessary credit. There is only one danger. The competition of district savings banks grows increasingly keen, and even the commercial banks are penetrating into the

¹ See article in *Das Genossenschaftsblatt*, 30th July 1921. By the end of November 1921 agricultural societies had increased to 34,773. In India last year (1920) there were approximately 38,000 agricultural societies but membership is much smaller than in Germany.

² June 1921. At the end of 1920 the total number was 44,315.

³ See article in *Die Genossenschaftspress*, 15th September 1921.

⁴ 60·4 millions according to the 1919 Census which however included territory subsequently ceded to Denmark.

⁵ The first village bank was founded by Raiffeisen in 1863

villages, not to lend but to drain the country side of the money which industry needs.

Supply and sale are done by independent societies as well as by village banks. These societies, numbering over 4,000, form the second most important group of agricultural societies. They are an admirable example of the organisation that before the war made German agriculture the most efficient in the world. Some account of them will be found in Chapter 4. Belonging to the same category is the co-operative granary society which stores grain for sale, a type of society that had its birth in Germany and which, if it could be established in the Punjab—the first experiment has already been made—might be of the greatest benefit to the zemindar.¹

Creameries, of which there are about 3,000,² are the next most important class of society. They are not described in this report, as at present they have little practical interest for India. Moreover, the State control of milk and butter has made their position difficult, and for the moment they are declining. The co-operative sale of milk on the other hand, though still in its infancy, is making progress and, as it is a problem that touches India closely, one or two typical milk societies are described in chapter 6.

Over 7,000 rural societies are gregariously classed together as 'miscellaneous.' Electricity societies form the largest group, numbering now over 3,000. They are a remarkable instance of the power of necessity. If necessity is the mother of invention, it is both father and mother to Co-operation. Over 1,700 societies have sprung up since the armistice. The shortage of coal and oil due to the war has made light as difficult a problem as it was two or three years ago in India. The scarcity of draught animals, their prohibitive prices and high cost of maintenance have made the use of machinery more than ever desirable, and the ever-rising wages have had the same effect.³ Lenin at a recent Congress spoke of the electrification of agriculture as the best means of reconstructing Russia.⁴ The process has already begun in Germany and in time may have far-reaching effects. It should be of special interest to the Punjab, where an abundant supply of electricity will before very long be available. A brief description of the German society has therefore been given in Chapter 8.

¹ See Chapter 5

² On May 1st, 1921, there were 3,046.

³ Last winter (1920-21) wages were 9 times as high as in 1914.

⁴ *Report of the Committee to collect information in Russia*, 1921 (page 57).

Of urban societies the most important types are the Store, the Craftsmen and House-Building societies and the Schulze-Delitzsch or small industrial bank. The 1,300 Hamburg federation stores, with their $2\frac{3}{4}$ million members and a turnover last year (1919-20) of nearly 3,000 million marks, bid fair to rival the English system from which they are directly derived.¹ They are not described in this report as there was no time to study them. The other three types are described in Chapters 9, 10 and 11. Both Craftsmen and House-Building societies are rapidly increasing, the one because raw materials are scarce, the other because the housing question is as acute in Germany as in every other country in Europe. The Schulze-Delitzsch bank² is still an important factor, but the competition of the large commercial banks is an increasing danger and its future is therefore uncertain. It can still, however, lend at 1 or 2 per cent. cheaper than its rivals, and the smaller industries and businesses continue to regard it as a protection against the monopolist tendencies of the capitalist system.

The remaining subject that is treated in this report, so far as Germany is concerned, is the question of Land Credit. Land Mortgage. In this sphere Germany is admittedly ahead of every other nation. In England, if a landowner wishes to raise money by mortgage, he has to apply to his solicitor or banker to find a mortgagee. This may take time and interest will be at 6 or $6\frac{1}{2}$ per cent. In Germany there is a large number of mortgage banks, where with the minimum of delay and expenditure a mortgage loan can be raised at 4 to $4\frac{1}{2}$ per cent. which is substantially less than what Government has to pay for its loans. India never did a wiser thing than when she borrowed of Germany her system of village banks, but it might be even wiser still to borrow her system of Land Credit. The subject is discussed in Chapter 7, in which two characteristic Land Credit associations are described.

7. The bulk of Germany's 47,000 societies are grouped together for purposes of audit, control and organization in one or other of four national Federations. The 1,300 Stores mentioned above belong to a Consumers Federation at Hamburg, and most of the other urban societies to a federation at Berlin called 'the German Federation of Co-operative Societies.'³ Similarly, nearly all agricultural societies belong either to the Imperial or to the Raiffeisen Federation. Both

¹At the end of 1920 there were 2,418 co-operative stores.

²So called because the first banks of this type were founded in 1850 by Schulze of Delitzsch, who did for the town what Raiffeisen did for the country.

³In May 1920 two important urban federations called, respectively, the 'Allgemeiner Verband' and the 'Hauptverband' amalgamated to form the 'Deutscher Genossenschafts-verband,' or German Federation of Co-operative Societies. At the end of the year the latter embraced 4118 societies.

have their headquarters at Berlin, and both are described in Chapter 2. The Imperial Federation with nearly 22,000 societies is much the largest in Germany and probably the largest in the world. An interesting and encouraging sign of the times is the tendency of all four federations to draw closer together, and a joint committee has been set up for the purpose.¹

8. Germany has 47,000 societies but, it may be asked, is the movement sound? So far as the agricultural movement is concerned, which alone was studied in any detail, the answer is unhesitatingly in the affirmative, and there are three facts which show this. Firstly a member of a co-operative society can borrow cheaper than anyone else. The commercial bank charges 7 to 8 per cent. the village bank only $4\frac{1}{2}$ to 5. Secondly, in 1919 the deposits of co-operative societies with central banks amounted to about 4,000 million marks, and represented over 90 per cent. of the total liabilities of the latter. Thirdly, approximately the same amount has been invested in the different War Loans and, though this stock has fallen 20 points, the depreciation has in most cases been written off 'in toto.' There could be no more impressive testimony to the financial stability of the German co-operative banking system.⁴

Materially then German Co-operation is sound, but it must always be remembered that Raiffeisen, the founder of the agricultural movement, laid as much stress upon the moral as upon the material aspects of Co-operation. To him the basic principles of thrift, self-help and mutual help had almost the force of a gospel. But, as happens with every new gospel, success dulled the edge of inspiration. As long as the peasantry were thriftless, uneducated and helpless, and a prey to the usurer, the moral appeal was clear. But in time they became tolerably educated and prosperous, and the bonds of the usurer were broken. A vast organization was built up, in the midst of which the individual was in danger of being lost, and as business became more varied, commercial aspects grew more important. Then came war and its shattering defeat. To Co-operation this may be a blessing in disguise, for defeat is kindling a spirit, which could never have arisen out of victory and which expresses all that is best in the German race. The long uphill fight has begun again and it is this that invigorates.

¹See paragraph 26.

²Now worth about £20 millions. It is an interesting fact that these deposits have increased almost *pari passu* with the depreciation in the currency. Thus in 1919 deposits were 11 times as large as in 1914.

³This does not include urban societies.

⁴*Cf.* paragraph 16 (b).

9. What has so far been said of Italy has perhaps been more disparaging than laudatory. That is because Italy is weak where Germany is strong. Her financial system and her general organization cannot be compared with the German. But in two fields her achievements are brilliant and beyond anything achieved elsewhere. The Co-operative Farm and the Labour society are now definitely established, and are even spreading across the Alps. They are her great contribution to Co-operation, and in nothing is the deeply original genius of her people more vividly displayed. Both are described in this report. At present there seems to be no limit to the possibilities of the Labour society. There are about 2,500 of them in the country. Masons, bricklayers, cement-workers, dockers, carpenters, day-labourers, carters and many other varieties of manual labour have organized themselves into societies to eliminate the contractor and undertake contracts themselves. In Ravenna the contractor is as extinct as the dodo, and yet, when I visited it, contracts for many million lire were being executed. Recently a flotilla left Venice on a maiden voyage bound for Milan by a newly constructed waterway, and at the same time a similar expedition sailed from Milan to Venice. In both cases the enterprise was co-operative. The half devastated area of the Piave is being rebuilt under co-operative auspices. The very porters at all the chief stations in Northern and Central Italy have formed co-operative societies to get rid of the intermediary contractor and deal with the railway direct. That Labour can be co-operatively organized can no longer be doubted. The more difficult question remains whether co-operation can be applied to industry. The experiment is being tried and, if it succeeds, the industrial question in Italy will be solved.

The co-operative farms number about 500 and are at their best in the districts of Ravenna, Bergamo and Reggio Emilia. In Sicily, too, they have taken root, and they are now spreading throughout the country. In the three districts named they have definitely emerged from the experimental stage, but many difficulties remain, some of which would have been felt much more acutely in the past but for the assistance of Government and the large profits made through the war. In two villages near Ravenna I found handsome theatres being built mainly out of the profits of the local co-operative farm. It is claimed that the Socialist farms, with their large undivided estates, in which all the produce is pooled, produce more per acre than estates individually owned; but the figures quoted in support of this would have to be carefully scrutinized before

Achievement in Italy.

(a) Labour Societies.

(b) Co-operative Farms.

they could be accepted. The aim, however, in the first instance was not to increase production, but in Lombardy to eliminate the middleman rent-collector, and in Emilia to provide a remedy for unemployment. Both these objects have undoubtedly been attained, and that is one reason why the societies are spreading. The other reason is that since the war the desire for independence has laid its hold upon all sorts and conditions of men. In the town this expresses itself in the enthusiasm for the Labour society, and in the country in the eagerness of the field labourer and the tenant farmer to join a Farm society which abolishes the rent-collector and, if the land is bought, the land-owner as well. This applies more especially to the societies which allow their members to cultivate, and in some cases to own their own plots of land. But it applies, too, though in a lesser degree, to the Socialist societies in which all land is cultivated collectively, for the members of these societies are mostly field labourers, who prefer to work for a society which they control than for a landlord or a contractor who is entirely alien.

There are five main branches of Co-operation in Italy. The Labour society is perhaps the most important, though not the most numerous. The co-operative Farms belong to what may be

(c) Miscellaneous Agricultural Societies.

called the agricultural branch, which includes 1,500 Creameries and 1,000 Supply societies, the latter affiliated to a federation at Piacenza. Fifteen or twenty of these manufacture their own chemical manures. One I visited at Novara turns out 9,000 tons of super-phosphate of lime every year. Another at Ravenna is building a factory and expects to have an annual output of 16,000 tons. These are striking achievements to which there is no parallel in Germany.

The third branch is that of the 2,750 Casse Rurali or village banks, to which brief allusion has already

(d) Village Banks.

been made. Gorged with deposits, which there is no banking system to absorb, they are in danger of dying of the surfeit of prosperity which in so many countries war has brought to the farmer. The Catholics, to whose organization most¹ of these societies belong, now talk of absorbing their surplus wealth in other co-operative enterprises for which capital is required, and a bank² has been founded at Milan for the purpose. If this scheme succeeds, the village bank may revive.³

¹500 belong to the neutral Wollemborg organization.

²See paragraph 48.

³Cf. also paragraphs 19 and 21.

The remaining branches are the People's Banks and the Stores. The former, which number about 800, are to be found all over Northern and Central Italy. In character and organization they resemble the Schulze-Delitzsch Banks of Germany, and like the latter, though mainly urban, they do a considerable agricultural business. On the whole they have done remarkable work, but lack the cohesion of the German Banks, nor do they adhere unswervingly to co-operative principle. Luigi Luzzatti, their founder, said that a co-operative society should always be independent but never isolated. Isolation is their weakness, and in a bank it is a weakness which is almost a danger. An attempt to unite them in a large central bank at Milan failed. Sooner or later Urban Banks will be required in India. Two or three provinces have already made a start. Chapter 11 therefore deals with them.

(e) People's Banks. Numerically the most important of the five branches is the Store or Consumers' society. Unlike England and Germany, the movement in Italy is as much rural as urban. The Catholic

(f) The Co-operative Store. Societies indeed are principally rural. There are now over 6,000 stores in the country, of which probably less than half are urban. Most of these societies are a product of the war and a reaction against the profiteer. In Germany there are few village stores. Local competition keeps the petty trader in check, and there are also political sympathies binding him to the peasant proprietor. In India the supremacy of the village bania or shop-keeper makes it more desirable to follow Italy than Germany. Some account therefore is given of the village store in Chapter 12.

10. In Germany the movement is firmly rooted in the soil and the future can be regarded with confidence. In Italy one is reminded of the 'great image whose brightness was excellent' and whose legs were of iron, but about whose feet there was a suspicion of clay. It is, however, too soon to judge. Five years hence it will be possible to separate the dross from the gold. Meanwhile it must be admitted that the Italian in the Northern half of the peninsula has a remarkable aptitude for local combination, which is perhaps the modern expression of the old instinct which made mediæval Italy famous for its guilds and its innumerable city states. The old fervour is there, and there is an exhilaration of enthusiasm which I have not found, to quite the same extent, in any other country.

11. This exhilaration is the exhilaration of battle. Something has already been said of the rivalry between Catholic and Socialist. Evenly matched in Parliament,¹ each strives to

Soundness of the movement in Italy.

Co-operation and Politics.

(a) Catholic and Socialist in Italy.

¹ The recent elections (May 1921) gave the Socialists 123 seats and the Catholics 108.

outstrip the other in the country, and the Co-operative society is too often the pawn of the game. Politics and Co-operation are regarded as inseparable. As a prominent Socialist co-operator said to the writer :—" Politics are the breath of an Italian's nostrils. He is political when he eats, he is political when he drinks and he is political when he co-operates." Neutrality is therefore said to be impossible, and in any case the socialist would condemn it. " All those," he says, " who hold aloof from the great questions of life and who would reduce it to the miserable level of a commercial business are not true co-operators."¹ A highly placed official of the Catholic Federation, holding much the same view, remarked to the writer that it was impossible to expect a Latin on joining a society to doff his ideals like a coat. It may be that to a Latin neutrality is impossible. If he thinks at all, he thinks things out. So it comes that Catholic and Socialist in Italy have evolved complete schemes of life which are unfortunately irreconcilable. Each side not only holds, but preaches its view with passionate conviction. Economic principles are translated into ideals, and ideals into dogmas which must be applied at once. This can only be done by law or by revolution. No true co-operator desires violence. Therefore all seek political power in order to secure their ends. By political power, too, public money can be obtained, and the more important the party the larger the dole.*

It must not be supposed, however, that the whole movement in Italy is given over to politics.

(b) Neutral Italian Societies. The agricultural supply societies, many of the creameries, all the People's Banks and the 500 Wollembourg village banks are still neutral because for the most part they represent the peasant proprietor who cares nothing for politics and who, as one of their leaders remarked, does not let himself easily be caught by the throat. The ' *Sindicato Nazionale*', a federation to which about 2,000 miscellaneous societies are affiliated, also claims to be neutral. Moreover, scattered up and down the country, are many societies that hesitate to join any Union or Federation for fear of becoming involved in politics. I came across several of these on the lower slopes of the Alps, and as the President of one of them said - " Bread not politics is what we want." But he was a simple hillman and very different from the man of the Lombard plain below. As a whole there can be no question that Co-operation in Italy is saturated with politics, and the best that can be said for it is that

¹ Leading article in *La Co-operazione Italiana* (18th February 1921), which is the chief Journal of the Socialist co-operative organization.

* Cf. paragraph 49 (c).

political ties form a bond, and political ambition quickens interest and effort. If, too, politics are bad for Co-operation, Co-operation sometimes, though not always,¹ acts as a moderating influence upon politics.

Turning now to other countries, we find opinion in France united, but in England divided. At a congress held last year at Strasburg an overwhelming majority voted in favour of neutrality,² and the decision was ratified this year at a congress held at Lyons. But, at a congress held almost simultaneously³ at Scarborough, the proposal that the urban co-operative movement in England should form a political alliance with the Labour Party was only defeated by the narrow majority of four out of a total vote of over 3,368. In Ireland, with singular wisdom and restraint, politics have always been rigidly excluded, a fact that has been the salvation of Co-operation in that unhappy island.⁴ For years under the beneficent aegis of the Irish Agricultural Organization Society, men of all shades of opinion have been able to meet together in perfect amity. In Germany the discussion of politics and religion in a co-operative society is barred by law, and though here and there, especially in the Stores, a political tendency is observable, the movement as a whole is strictly neutral; and indeed it can afford to keep out of politics, as 60 years ago Raiffeisen discovered and applied to agriculture the system that the Social Democrats of to-day are trying to apply to commerce and industry. The President of the Imperial Federation, speaking with vehemence, remarked to the writer that a society that took to politics was as good as lost, and there can be little doubt that, so far as India is concerned, he is right.

Even in Italy most of the leading co-operators I met, including even the Socialist and the Catholic, admitted that the political tie was an evil though, as most added, a necessary evil. Luigi Luzzatti, it may be mentioned, was entirely opposed to it. Like everything else it has its advantages, but the price paid is too great. In the first place it endangers unity, and unity is

Dangers of Political Connection.

¹ *La Co-operazione Italiana* for the 10th June 1921 gives a second list of 27 outrages committed by the Fascisti, the so-called national party, against Socialist Co-operative Societies. The list includes 8 cases of fire, 4 of destruction and 15 of serious dangers (*devastazione*), all perpetrated in April or May. In one instance, the outrage is described, as "*devastazione, ostracismo bastonatura* (beating) al Direttore" who was the manager of a Store. The same paper for the 8th July gives a further list of 50 similar outrages. It should perhaps be added that a general election took place in May.

² In September 1920, the voting was 2,396 to 20.

³ May 1921.

⁴ In the very few cases in which restraint has broken down, the societies concerned 'have perished ignominiously'—Smith Gordon, *Co-operation in Many Lands*, Volume 1, page 215.

the *sine qua non* of a co-operative society. Secondly, it is a fundamental principle of Co-operation that it knows no distinction of colour, caste or creed. This is not compatible with political partisanship. Thirdly, where banking is concerned, once politics enter, a man's view of the one will affect his judgment in the other. Finally, where Co-operation and Politics go hand in hand one must be dominant. If it is politics, Co-operation loses her freedom. Russia is the classic instance of this. If, on the other hand, it is Co-operation, the temptation to turn political power to doubtful ends may prove irresistible. The future of Co-operation was never brighter than it is at present, but there is a cloud on the horizon, no larger in some countries than a man's hand. The political danger is indeed the only serious danger that Co-operation has to fear.¹ There can be no question then that India should follow Ireland and Germany rather than Italy.

12. If politics are Co-operation's greatest danger, its greatest problem is to span the gulf between producer and consumer. At present their interests clash. The producer wants to sell at the highest price, the consumer to buy at the lowest. Some writers, emphasizing that

all men are consumers, but not all producers, hold that Co-operation should be organized from top to toe for the benefit of the consumer.² This is the view of an important section in England and of the Socialists in Italy, who say expressively—'il sovrano, il dittatore deve essere il consumatore'—the sovereign and the dictator should be the consumer.³ The rival school of thought, declaring that production precedes consumption, maintains that the interests of the producer should not be subordinated to those of the consumer. This is naturally the point of view of the farmer.

This is not the place to split a lance on either side, and the controversy is only mentioned for its bearing upon the problem of the profiteer. It was stated earlier that more than anything else the profiteer and the system he represents are responsible for the growth of Co-operation since the war; and it might fairly be supposed from the rapidity of this growth that Co-operation is a full and sufficient remedy against the evil. If Co-operation were fully developed, this would certainly be the case; but being in its infancy it is still no more than a partial remedy. To eliminate the profiteer, producer and consumer must deal with each other direct. At present the profit-seeking middleman is

¹ Even the Italian Socialist begins to be uneasy, for the Communist now threatens to split the Socialist camp in two and is said to have already captured 2 of the 3 largest co-operative stores in the country—*La Co-operazione Italiana*, 2nd December 1921.

² This point of view is admirably stated in Woolf's *Co-operation and the Future of Industry*.

³ Felico Manfredi—*il Movimento Co-operativo*.

always interposed, and his example compels the producer, *even when he is a Co-operator*, to demand the highest price he can get. And so, when he gets the chance, the producer turns profiteer as well. In Italy the Co-operative Farms have made as handsome a profit out of the war as any profiteer. In Munich a society of 30 tailors recently declared a dividend of 90 per cent. earned by the prices they had charged for their suits.¹ Instances like these might be multiplied. The fault lies not with Co-operation but with the capitalist or profit seeking system, which still holds the field. Under this system everything is determined by the jungle law of supply and demand. If supply exceeds demand, prices are low ; if the reverse, prices are high. It is because the war has produced universal scarcity, combined with an almost universal depreciation of currency, that prices have soared, and with the soaring of prices the profiteer stands out bloated and unashamed. Under a co-operative system this would be impossible, for the function of Co-operation is not to earn profit but to perform a common service. Ultimately its aim is not to procure the highest price for the producer or the lowest for the consumer, but a *fair* price for both.

This, however, can only be done if, firstly, producer and consumer deal with each other direct, and
 (c) The Remedy. secondly, if an authority, at once impartial and representative, can be created to determine in each case what is a *fair* price. This infinitely difficult task was attempted during the war by Government, but few now are advocates of State control. Control, therefore, if control there be, must be co-operative, and means will have to be found to give it effect. In Ireland a board already exists for the purpose, and it is the hope of co-operators in that country that Ireland's special contribution to Co-operation may be to show how producer and consumer can be reconciled. Meanwhile, in Germany, Italy and Ireland, direct sale to the consumer is now in the forefront of the co-operative programme, and though not much has yet been achieved, a definite start has been made.² It must be some time before much can be done in India, as co-operative sale there is still in its infancy. But when this is developed, the further step should not be difficult, as producer and consumer both belong to the same organization, which should be able to arbitrate between them. This is a great advantage which, I believe, no other country in Europe enjoys, and it should be jealously guarded.³

¹ See paragraph 113 (b).

² See paragraph 61 where the subject is further discussed.

³ See paragraph 27.

13. No movement is likely to develop successfully unless it has a clear idea of where it is going. In

Aims and Ideals

(a) Germany.

Germany all energies at present are bent upon reconstruction. But it is realized that the more democratic *régime*, which for better or for worse defeat has brought with it, gives Co-operation a special opportunity; and it is felt that in the new democratic Germany the co-operative society, which has always been essentially democratic, must become the corner-stone of the economic life of the country. Co-operation is regarded as a happy compromise between capitalism on the one hand and socialism on the other, as it secures to the individual his full economic liberty, which the other two systems in greater or less degree restrict. Though there are 33,000 agricultural societies, this is not considered sufficient. As a recent annual report says:—"Only then will Co-operation attain its full life and power for good, when the significance of a common fellowship in co-operative work penetrates not only into every hamlet and village, but also into the remotest cottage."¹

In Germany aims are essentially practical, in Italy essentially ideal. The neutral societies, which

(b) Italy.

perhaps number one-third of the whole, are bent only upon supplying the economic necessities of their members. The Socialist, on the other hand, has a clear cut scheme for reconstructing the whole economic world. Bitterly opposed to the 'Borghesia', as the middle and propertied classes are called, he desires to form a 'nuova società,' a new social order, by nationalizing all the means of production, distribution and exchange and bringing everything that cannot be nationalized under co-operative control. The middle classes he would displace, except so far as they are prepared to serve socialist masters.² Collectivism (not communism) is the ideal, and in greater or less degree the collectivist tendency is emphasized in every Socialist society. Thus the Labour society is often but another form of the Trade Union, and the equal distribution of work counts for more than either the quantity or the quality of the output. In the Socialist Farm the collectivist form is preferred to the proprietary. That is to say, produce is pooled and members receive a share of the pool but no share in the land, which the society jealously guards for itself. Similarly the large store society is preferred to the small. At every point individualism and private property are curtailed as they foster egoism, and egoism is regarded as the root of original sin.

¹ Annual Report of the Imperial Federation, 1919.

² "Co-operation has become an integral part of the struggle between the exploiting capitalistic class on the one side and the exploited wage-earners on the other."—Leading article, *La Co-operazione Italiana*, 16th July 1920.

To this the Catholic replies that, if the Socialist had his own way, the dictatorship of capital would only be replaced by the dictatorship of the proletariat, and the egoism of the individual by the egoism of the mass.¹ Socialist and Catholic are indeed diametrically opposed. The Socialist preaches collectivism, the Catholic individualism, tempered and purified by Co-operation. The Socialist's ideal is the collectivist form, the Catholic's the peasant proprietor. Working with human nature instead of against it, the Catholic would give as many as possible, however humble, a stake in the land, believing with Aristotle that property and good citizenship go hand in hand.² "We wish," said a leading Catholic co-operator, "to secure to the individual members of our societies and to their organisations the fullest elasticity and liberty of action, believing that individual interests will be sufficiently restricted by the bond of solidarity, which comes from the application of our fundamental principle 'each for all and all for each.' " He went on to add, in words that Raiffeisen himself might have used, that as Christian charity is the basis of Co-operation, its moral aspects must be emphasized, or it would fail in its purpose.³ It is freely said by critics that confessional as well as moral aspects are emphasized, and it is certainly the case that only good Catholics are admitted to village banks.⁴ A non-Catholic may question the wisdom of this policy, which however only applies to village banks; but it is impossible for a Christian not to sympathize with the emphasis that a Catholic lays on Christian fellowship and moral obligation. Similarly, however little one may believe in the Socialist's utopia of collectivism, it is equally impossible not to admire the earnestness of his purpose and the enthusiasm of his hopes. The real matter for regret is that both sides are apt to forget the old co-operative motto—"In things essential unity, in things doubtful liberty, and in all things charity."

¹ *Co-operazioms Popolare*, the leading Catholic Co-operative Journal.

² See *Politics* IV 6—"When the class of husbandmen and of those who possess moderate fortunes have the supreme power, the Government is administered according to law" (Jowett's translation).

³ Speech of the President of the National Federation of Consumers Societies at the last annual congress held at Bologna.

⁴ The Socialist equivalent is that ordinarily a member of a Labour Society must be a Trade Unionist.

CHAPTER I.—The Village Bank.

For India the supreme interest of Co-operation in Germany lies in the village bank. In both countries it is the dominating co-operative type. In India indeed, where agricultural credit societies form nearly 90 per cent. of the whole, it is still the only type of importance. By village banks therefore must Co-operation in India be judged, and no better standard could be applied than the standard of Germany, which is the birthplace of the village bank and the country of its greatest development. Everyone who knows anything at all of agricultural Co-operation is familiar with the main features of the system, namely, unlimited liability, an area restricted to a village or two, small shares, limited dividends or no dividends at all, indivisible reserve, loans to members only, low rates of interest and honorary management controlled by the general assembly of members, each of whom has one vote and no more. In detail one country or province may vary from another, but the ground principles are everywhere the same, and wherever they are found and however they appear to be derived, their ultimate origin is Germany and their sponsor Raiffeisen. Accordingly the German system deserves the closest study, and no study is likely to be more fruitful, as Germany has a longer and wider experience of rural co-operative credit than any other country in the world.

2. This experience extends over nearly 60 years, for the first village bank of the present type was founded by Raiffeisen as long ago as 1862.¹ There are now (April 1921) 18,740 societies with about $1\frac{3}{4}$ million members.² But for recent loss of territory the number of societies would have been over 20,000. In India progress has been even more rapid. In fifteen years about 42,000 societies have been formed with nearly 1,400,000 members. Indians who are inclined to think that the pace has been too slow would do well to consider this. Development has in fact been so fast that it might be supposed that quality has been sacrificed to quantity. It may therefore be said at once that, so far at least as the Punjab is concerned (I have no personal experience of any other province), the foundations of our system have been well and truly laid. In one or two respects, indeed, the Punjab holds if anything more closely to the pure gospel of

¹ At Anhausen.—C. R. Fay, *Co-operation at Home and Abroad*, pages 20 and 49.

² By the end of November 1921 the number of societies had increased to 18,591, which means that there must now be nearly two million members.

Raiffeisen's teaching than does Germany herself.¹ Credit is more personal, management more entirely honorary, general meetings more frequent and corporate spirit stronger. In many respects, however, such as punctuality of dealing, fluidity of money and general banking facilities it would be impossible to challenge comparison.

3. Considering the great development of village banks in India it is encouraging to find that in Germany the village bank, or "the Savings and Loans Bank" as it is called, is still regarded as the basis of the whole rural co-operative fabric. In the last two years (1919-20) 1,763 have been opened. In Ireland on the other hand little is expected of their future and not many more than 100 remain. In France, too, rural credit societies are said to be of secondary importance and to have no real life of their own.² In Italy the movement is stronger, and her 2,750 Casse Rurali or village banks are still an important branch of the co-operative movement, but they are definitely a branch, and for the most part a branch that is not putting forth any vigorous shoots.

4. Both in Ireland and in Italy the war with its high prices has left the cultivator of the soil so prosperous that he no longer needs to borrow. In Germany, too, the peasant proprietor is better off than he has ever been before, but his present wealth is to a large extent illusory, for not only does it consist entirely of paper instead of gold, but it has been won at the expense of the land which for five or six years has been virtually starved. Manures, cattle, machines, all the accessories in fact of scientific agriculture, have till recently been unprocurable except in the most limited quantities. Now that it is possible once more to purchase them, though only at almost prohibitive prices, a large portion of the new made wealth will be re-absorbed into the land. The flood of deposits then will ebb and the demand for loans revive. The tide indeed is already turning.

5. In any case the village bank would still be needed, for it is not only a credit society but also a savings bank, and thanks to a co-operative banking system which is unrivalled, there is almost no limit to the volume of deposits that can be absorbed. Germany believes, too, that the village bank is the best foundation for a rural co-operative system, and that far better than any other form of society it teaches its members the elements of

¹ On the 31st December 1921 the Punjab with its population of 20,635,024 had over 8,000 village banks containing over 200,000 members.

² See Rothfeld—*Impressions of the Co-operation Movement in France and Italy* (1920).

co-operative principle and practice. This view will I think be endorsed in India, and indeed for a people ridden by debt, illiterate and untrained to business there is no school to be compared with the village bank. Everything therefore should be done to secure it as a permanent asset to the village.

6. The weakness of our societies in the Punjab is that they are too one-sided. They tend to regard the advance of loans as their sole function, and to forget that a bank should draw deposits as well as lend. The danger of this is that, when debt is cleared and members are prosperous, as is now the case in some of the older societies, there is little left for the society to do. It is a strength of the German system that the village banks both lend and receive. But this postulates a central banking system so well organised that money can pass readily from any area which has too much to any area which has too little, or from one branch of the movement to another. This has been freely done in Germany to the great advantage of the many large agricultural wholesale societies and is in sharp contrast to Italy, where progress has recently been brought to a partial standstill through lack of capital. Rural capital is probably no scarcer in Italy than it is in Germany, but the necessary organisation to attract and distribute it is lacking. An Italian writer, speaking of the accumulation of deposits in the *Casse Rurali*, remarks¹ that before the war they suffered from anemia and now they suffer from dropsy. For both diseases the best remedy is a good central bank. In India, though the rural co-operative banking system is more developed than in Italy, it is still far behind the German system as will be seen later. There is, too, the added difficulty that hoarding rather than depositing is the habit of the country.

7. Before the growth of co-operative societies the idea of depositing was almost as unfamiliar to the German peasant proprietor as it is to-day to the Indian cultivator. Yet now in Germany deposits run into milliards of marks. In the old days much was done by systematic effort to attract small savings deposits. In Bavaria school children, 11 or 12 years old, used to be sent round on Sunday singly or in pairs to collect in a definite area. In this way at the end of the year a man might find £10 or £15 to his credit. As the system was not very remunerative to the bank the deposit did not begin to bear interest till the first of the following month or quarter. When the war broke out the system had to be discontinued

¹ In an article in *Co-operazione Popolare*—In 1919, the deposits of the 2,750 *Casse Rurali* amounted to 282 million lire or about £3½ millions. In the same year in Germany the central bank had £20 millions (over 4,000 million marks) in deposit from about 18,000 village banks.

and now, as societies are prepared to take deposits of any sum from a penny upwards, there is no great need for it. Moreover since the war deposits have been almost embarrassingly large.

8. In 60 years there is no case of a depositor having lost his money. There is in fact no safer investment than a deposit with a good village bank. At the outbreak of the war, when East Prussia was invaded, there were long queues of people in the East Prussian towns waiting outside the commercial banks to withdraw their money. In the village banks on the other hand deposits actually increased, many people bringing their money there for security. The same thing occurred in the wars of 1866 and 1870.¹ The reason for this lies in the greater confidence inspired by an organisation which belongs to the members themselves and which is bone of their bone and flesh of their flesh.

9. It has sometimes been doubted whether a village bank should undertake anything but banking. Raiffeisen himself contemplated a single society being maid of all work, and broadly speaking, with obvious limitations, this is the view that is now generally held. This is especially true of Ireland where the future is thought to lie with the General Purposes Society, the object of which is to undertake any co-operative activity required by the village.² In Germany, though there are many 'separate supply societies,'³ most of the village banks supply their members' agricultural requirements and to some extent also their household requirements. In Italy, too, much supply work is done. For business purposes separate societies are doubtless an advantage, but in small villages they are difficult to organise, and certainly more expensive to run. Opinion is in fact agreed that in the small village it is impossible to keep banking and trading apart. In Bavaria and in the province of Saxony this principle is carried so far that few separate supply societies exist there at all.

10. In Bavaria it is the expressed aim of the largest local Union that when a competent committee is available the village bank should do everything. Some even run elevators. In Saxony, too, co-operative sale is often undertaken. In 1918 for instance 730 societies sold-produce, mainly potatoes,

¹ Wolff, *People's Banks*.

² See paragraph 152.

³ In 1918; 89 per cent. of 4,430 societies affiliated to the Raiffeisen Federation did this.

to the value of 8 million marks. As a whole, however, co-operative sale is far less developed than supply. In Italy it is hardly done at all. For the ordinary village society the difficulties of uncertain and distant markets are too formidable, and serious losses are easily incurred. A way to avoid the latter is for the village bank to act only as a collecting agency for the provincial Agricultural Wholesale Society (or Central Bank) which sells the goods. This is freely done in Bavaria and to a lesser extent along the Rhine. In India banking and supply cannot be kept apart, as villages are too small and the literate too few for separate societies, but the sale of produce should not I think be undertaken as long as there are no wholesale societies to assist. Sale is far more difficult than supply, and the two together added to banking would place too great a strain upon the average local committee, a difficulty that is beginning to be felt even in Bavaria.

11. In view of all that has been written on the subject it may seem superfluous to describe a German village bank, but to anyone who has inspected scores of village banks in India, there is nothing more stimulating than a visit to one of those societies in the country of their birth, and as few in India can hope for this privilege the following account may perhaps be of interest.

Duisdorf is a prosperous village situated in the open and gently undulating country round Bonn, a town which stands on the Rhine. In its orchards and vegetable gardens it recalls the neighbourhood of Amritsar and Jullundur. The average holding is small, varying for the most part from 2 to 5 acres. When fruit and vegetables are cultivated $1\frac{1}{4}$ acres are said to be sufficient for a man and his family, otherwise 10 to 12 acres are required. This is not very different from the central Punjab, but the standard of living in the German village is much higher than that in the Indian. If, in spite of this, approximately the same area will support the family of a German and of a Punjabi, it is because the German gets more out of his land. This he does, not because he works harder—no one could work harder than a Jullundur Arain—but because his resources are greater. And that is where he owes so great a debt to his society.

The latter was started 24 years ago and now has 210 members. £1,500 has been advanced on loan and £2,500 received in deposits. Most village banks after the war had a surplus of this kind owing to the high prices on the one side and the difficulty of purchase on the other. In this case the humblest deposits, even pence, have been accepted. 10 per cent. of the members have cash credit accounts, a

(a) Loans.

great convenience, the use of which will be discussed later.¹ Most loans are secured by sureties, but when money is required for 5 or 10 years² a mortgage will be taken up to 50 per cent. of the value of the property concerned, or, if the borrower is unusually reliable, as much as 75 per cent. will be advanced. In 24 years no mortgage has had to be foreclosed or defaulter sued.

The society has its own hulling machine and flour mill, both driven by electricity. The one cost
 (b) Machines. £250 and the other £100. In 1919, 80 tons³ of flour were turned out by the mill. There are a dozen other machines which members can hire, and that is one reason why the land is so productive and a high standard of living can be maintained. The President confessed that these machines after use are often left out in the fields instead of being returned. When damage is done the member at fault has to pay unless it is slight.

An unexpected asset of the society was a weighbridge, which
 (c) Weighbridge. has been set up at a cost of £200 to counter the guile of the traders of a neighbouring market whose weighments, it seems, were no more above suspicion than those of an Indian bazar. Any member now, before taking his produce to market, can have his cart weighed for a penny. A non-member pays a penny halfpenny. In either case the weighman gets a farthing. The machine itself records the weight on a ticket which is slipped into a slot. In consequence the weight cannot be disputed, for, as the President said, a machine does not lie. The carter takes the ticket with him to market, and the weight recorded on it is said to be never questioned. In 1919, 3,711 carts were weighed which shows that the system is appreciated. I have described it in detail as false weights are the curse of petty trade in India.

As is so often the case in India, the success of this society
 (d) The President. is largely due to the character of its president, who was perhaps the most striking of the many presidents I had the good fortune to meet in Germany. He recalled the best type of our peasant proprietors. Past his prime, he was still energetic, intelligent and capable, with a vein of humour, and, if his face was any guide, absolutely straight. He has been president for 24 years and has spent his whole life cultivating his 100 acres of land. Four out of

¹ Paragraph 17 (d).

² This is ordinarily the maximum period for loans.

³ About 2,200 maunds.

his five sons, he said, have been brought up to do the same, and to work, as he has always done himself, from dawn till sunset. The fifth, another point to recall India, has gone to Bonn to become a lawyer.

12. The Duisdorf society illustrates an important point of difference between German and Indian practice, namely, the use of mortgage security. Both in India and in Germany the primary security for a loan is the character of the borrower, but to guard against the vagaries of temperament and the accidents of fortune some form of collateral security is usually taken as well. In India almost exclusively, and also to a prevailing extent in Germany, the security taken is that of the surety. In parts of Germany, however, notably in the Rhine Province and in Bavaria, a mortgage is often taken instead. This must not be confused with the ordinary long-term mortgage loan, for which the *sole* security is the land mortgaged. I came across a large village bank which undertook this class of business as well, but that is rare, nor is it necessary as many special banks exist for the purpose. Employed as a collateral security a mortgage may often be a great convenience, especially in industrial areas where common ties are weak and sureties not always easy to find. Many societies, too, are apt to think their loans safer when definitely secured upon the land.

I am informed by one¹ who knew and worked with Raiffeisen that he was not opposed to the use of mortgage as a collateral security. At the same time it must be remembered that the foundation of his credit system is character, and it is, I think, inevitable that, when this form of security is common, more regard will be paid to the property than to the character of the borrower, and in time the man with property will be preferred to the man without it. By those who defend the use of mortgage security it is claimed that both property and character are equally regarded, but in several societies that I saw I did not find this to be the case. The Secretary of one important Raiffeisen Union went so far as to say that there can be no rural credit without immovable property, and that is why in Germany there are no rural credit societies for people who have no land.² In the Punjab believing that character is the ultimate basis of credit we have started over 100 societies for village menials who have no land, and many of them have undoubtedly justified the experiment. The president of the

¹ Dr. Havenstein, President of the Union at Bonn.

² Cf. Russia, where agricultural labourers are not members of credit societies as the articles of association forbid advances to members who have no immoveable property—Bubnoff, *The Co-operative Movement in Russia*.

Duisdorf society put the point forcibly when he said—"My hair now is grey, and though I have neither education nor learning I can speak with the experience of many years. Character is the thing that matters more, far more than anything else." It was Raiffeisen's application of this fundamental truth to rural banking that is his great contribution to economic progress, and nothing should be done to make it less effective. In Germany no doubt, in giving a loan, character is always an important consideration, but anyone who has worked much in India knows how strong the temptation is to consider 'Haisiyat', material assets, rather than character. Moreover, in a country like Germany, where default is rare, it is not a serious objection to mortgage security than it is difficult to liquidate. But in India where default is common it might well prove a great embarrassment. India will therefore be well advised not to adopt this feature of the German system.

13. In Germany, as in India, it is a general principle that not a penny may be lent without security. To this rule the province of Saxony is a partial exception, but as will be seen later¹ conditions there are special. In Italy security is either not taken at all or only for loans above a fixed amount. Ireland, on the other hand, follows Germany. The commonest form of security is the surety. One good surety is sufficient, but two are considered better as one may die. In Saxony, as in the Punjab, only members are accepted as sureties, but elsewhere in Germany there appears to be no objection to the non-member surety, provided he belongs to the same village and is well-known.² Besides personal and mortgage security, scrip and insurance policies will also be accepted, but much less frequently than in the other two cases.

14. In India the oldest village bank is only 14 or 15 years old. In Germany there are societies that have kept their jubilee. One of these founded in 1869 I saw at Buller, a small village in the upland country of the Rhineland overlooking the beautiful wooded valley of the Ahr. In 51 years it has only had two presidents, father and son, and two³ Secretaries. The present Secretary, who has been so for 40 years, is a good type of peasant proprietor. He gave me most of the following particulars which I repeat as they illustrate a number of small points connected with the working of village banks.

¹ Paragraph 16.

² Under the model bye-law of the Raiffeisen Federation members of committee and the Secretary may only act as sureties with the sanction of the Board of Supervision.

³ The Secretary is always Treasurer as well and gives security.

The society was started to counteract the influence of the Jews who used to sell cattle to the villagers at extortionate prices. Promissory notes would

(a) The Usurer.

be taken instead of cash to get the people into their clutches, a device sufficiently familiar to the Punjab. Another device, by which cattle could be fattened for nothing, was to sell them when in bad condition to an impoverished cultivator and then a year or two later, when the latter could not pay his debts, to have them attached for default. Or when land had to be auctioned, the moneylender would step in as auctioneer and take 5 or 10 per cent. of the price. These methods were common enough in the old days, but Co-operation has killed them just as now in India it is slowly but surely doing the same.

The society has 148 members who except for a few artisans are all small proprietors, for the most part cultivating on their 10 or 12-acre holdings wheat,

(b) Shares.

potatoes, oats and rye. Each member takes a share of 100 marks,¹ and as liability is unlimited only one share may be taken. The value of the share before the war was higher than what Raiffeisen and his Federation would have approved. This society, however, belongs to the rival Imperial Federation which has always been in favour of substantial² shares. This is one of the minor points of difference between the two Federations of which more will be said in the next chapter.

Loans are made at the moderate rate of $4\frac{1}{2}$ per cent. This or 5 per cent. is the usual rate for village banks throughout Germany. A few will charge as

(c) Loans.

little as 4 per cent., a few more as much as $5\frac{1}{2}$ per cent., but these are outside rates. Rates have not changed much since the movement started. In 1879 for instance the average rate was not more than $6\frac{1}{2}$ per cent. Now that money is dear it may be necessary to raise them again³. Meanwhile a member of a village bank can easily borrow at $1\frac{1}{2}$ to 2 per cent. cheaper than Government and at nearly 3 per cent. cheaper than if he dealt with a commercial bank. Loans in Germany tend to be substantially larger than in the Punjab. To guard against excessive advances, the maximum amounts that may be given to a single member by the

¹ Worth £5 before the war, now 10 shillings.

² Before the war the Raiffeisen Federation credit societies mostly had shares of only 10 or 20 marks (10 or 20 shillings). Now, owing to the depreciation of the mark, shares of 50 to 100 marks are recommended. For their societies the Imperial Federation recommends shares of 300 to 500 marks.

As a result of small shares the proportion of owned to borrowed capital is very low. In 1920 for 15,658 banks it was less than 3 per cent. (total liabilities were 7,362 million marks, shares and reserve 184 millions). But it must be remembered that *members' deposits* form the bulk of the amount borrowed and that no money 'lies' better.

³ This is already being done in the Province of Saxony where the maximum rate is now 6 per cent.

committee without the sanction of the Board of Supervision, and by the latter without the sanction of the General Assembly are fixed once a year in general meeting. These limits vary much from society to society. In one bank I visited the committee's limit was £100, in another only £7 : 10.

Buller Society has £3,000 of deposits.¹ For this it pays from

(d) Deposit Rates.

3¼ to 3¾ per cent. according as the money is at call or on deposit for a fixed period. It is considered quite safe in Germany to give a high rate for a deposit at call, for it is usually found to be good "lying" money. This has doubtless helped to popularise the habit of depositing, and might be tried in our better class village banks with the proviso, which all English banks make but hardly ever enforce, that if necessary 14 days' notice must be given. There are, I think, many cultivators who might be persuaded to deposit at call, but who could never be induced to deposit for six months or a year.²

Paying for deposits at 3¾ per cent. and lending at 4½ per

(e) Margin of Rates.

cent. leaves a very narrow margin for expenses. This is characteristic of all German village banks and in marked contrast to the common Indian margin of 3 or 4 per cent. The latter, however, often serves the important double purpose of building up a strong reserve and rapidly making a society financially independent. Italy and Ireland stand midway between the two countries, about 1 per cent. being paid for deposits and 6½ per cent. for loans.³ In Germany a narrow margin has been adopted, partly in the interests of members and partly to meet the keen competition of the local district savings banks, but now a minimum margin of 1 to 1½ per cent. is recommended, not only to cover the rise in the cost of management due to the war, but also to enable societies to strengthen their reserves against the uncertainties of the future.

In 40 years no one in Buller Society has been expelled,

(f) Defaulters.

nor has any defaulter had to be sued. This illustrates the greatest difference between German and Indian practice. The gravest defect in our Indian societies is the number of defaulters. In Germany default on a serious scale is rare, and though I saw 15 village banks chosen at random, I came across no case at all resembling in this respect our C and D societies. This partly explains why German village banks can work upon so much narrower a margin.

¹ 600,000 marks.

² Mr. H. W. Wolff states (*Co-operation in India*, page 158) that after studying Savings Banks at home and abroad he found that 'the most successful were those which, whether bargaining for notice or not, as a matter of fact paid without notice or cutting it as short as could be.'

³ In Italy when societies have to work on loans (not deposits) members may be charged as much as 8 or 8½ per cent.

of profit than Indian. As long as the standard of repayment in India continues low this difference must continue; and, what is more serious, India cannot possibly hope to rival the achievements of Germany in the other fields of Co-operation, for punctuality of repayment lies at the root of modern business.

It only remains to add in regard to Buller that in 1919 the Committee met four times, the Board of Supervision twice and the General Assembly once. This is below the average. The committee of a village bank will generally meet at least once a month, the board of supervision once a quarter and the General Assembly once or twice a year. In Buller interest is slackening as the society is less needed than it was. At the first general meeting held in 1869 a resolution was passed that members absent from a general meeting without excuse should pay a fine of three pence. An appreciable number of societies have a rule of this kind and some are even said to enforce it. But in this case, as probably in most, the rule never went beyond a threat. Some societies attract members to their general meetings by providing refreshment or holding lotteries in which the prizes are agricultural implements, a rake, a hoe, and the like. The latter were very popular in the Rhineland before the war, and in one society I saw £750 had been spent in this way. But so much has been lost over the War Loans that they have had to be given up.

As a whole I received the impression that in Germany the general meeting plays a less important part than in the Punjab where half a dozen meetings a year are not uncommon. This is one of the points in which perhaps we stand nearer Raiffeisen and his teaching than the Germans themselves, and it is matter for congratulation, as there is no better way of infusing the co-operative spirit than by frequent general meetings. It is an advantage to the Punjab that societies there are much smaller than in Germany. The average membership in the two cases is respectively 27 and 99,¹ and it is obviously easier to get 27 members together than nearly 100. In India the absence of a board of supervision, which every German society has under law, makes a close control by the General Assembly indispensable.

15. Women are now allowed to vote at general meetings, but this is a comparatively recent innovation. The old German ideal which taught woman to care only for children, kitchen, church and Kaiser has had to be modified. During the war, when almost the whole manhood of the country was mobilized, many societies were only kept

Woman's Right to vote.

¹ In 1920, 15653 village banks (for which figures are available) had 1550757 members.

going by women, and the work was often so well done that many have been retained as secretaries. It is therefore impossible any longer to exclude them from general meetings, and even the conservative Raiffeisen Federation has been obliged to concede the vote. It will doubtless be some time before India can follow this example, but it is significant that the latest report for the Punjab speaks of a society of peasant proprietors which has a widow for its president.

16. The foundation of Raiffeisen's edifice was unlimited liability, a principle that has been almost universally followed wherever co-operative village banks have been started. In Italy for instance less than 100 societies have limited liability. In two provinces of Prussia, however, Pomerania and Saxony, limited liability has been adopted. The main reason for this is the presence in these two provinces of the landlord.¹ On the one side the landlord is unwilling to pledge all his property because he has so much, and on the other the peasant proprietor is equally reluctant, fearing that the default of one or two landlords may involve him in the loss of everything. If both are to join together in one society limited liability may be necessary. Dr. Rabe, a well-known authority in Saxony, considers that the difference between the two forms of liability is mainly theoretical. At Berlin authority was un-animously in favour of unlimited liability. At the same time it had no definite fault to find with the societies of Pomerania and Saxony. My own impression, formed from a brief visit to Saxony, is that, though special circumstances may render limited liability necessary, it is less favourable to the Co-operative spirit. Large rather than small areas are the tendency, and that means a less corporate spirit and heavier work for the management. The result of the one will be poorly attended general meetings and of the other paid instead of honorary work. The landlord too needing Co-operation less than the peasant proprietor, will probably take less interest in the society. Broadly speaking, it may, I think, be said that the material aspects of Co-operation tend to receive more attention than the moral. A good example of this is the very un-co-operative habit of charging compound interest which I did not come across anywhere else in village banks.

Financially, the weakness of limited liability has been brought out by the heavy depreciation in Government securities. Large contributions to the different war loans have been made by village banks. The losses on this now run into several hundred

(b) Their financial weakness.

¹ In Saxony in 1907, 59 per cent. of the cultivated area was in holdings of 50 acres or more. For the whole of Prussia the corresponding percentage is only 23.

million marks, and 80 per cent. of the societies are affected.¹ In Bavaria alone 3,000 societies have lost 42 millions. Societies with unlimited liability are obliged to build up large reserves to protect their members against the enforcement of their liability, and are consequently in a better position to meet a loss of this kind than limited liability societies, which tend to dissipate their profits in dividends upon the large share capital that they usually maintain. Some of these societies would have found themselves in a very awkward position but for an ordinance which allows only 1 per cent. to be written down yearly. In Bavaria, in spite of the heavy loss, no advantage appears to have been taken of this concession. No better instance could be given of the financial strength of the German village bank and of the general soundness of their management. Even in England there are many companies that have not seen their way to write down the much smaller depreciation of English war loan securities.

If, however, unlimited liability is a source of strength to a society, it can undoubtedly be a danger to its members. In 1919, and the dread is not wholly past, many thought that the German Government would go bankrupt and repudiate its debt. Had this happened, many societies would have been compelled to enforce the unlimited liability of their members. The fear of this and the general uncertainty of the times have led many co-operators to question the advantage of unlimited liability, and some societies have gone so far as to convert themselves from the one form into the other. This tendency is also to be observed in Italy, where the cultivator has become so prosperous that he is no longer willing to pledge all that he has. But in neither country is it very marked, and in Germany nine out of ten village banks still have unlimited liability. Opinion too, outside Saxony and Pomerania, is agreed that in a village bank liability should be unlimited, just as in a trading society it should be the reverse.

17. I saw two credit societies in Saxony and a few points about them are worth mentioning. Both had large areas, one including ten different places in a thickly populated neighbourhood and the other covering a radius of 12 miles. The larger of the two had 330 members, all landowners, and combined sale and supply with credit. It owned a roomy warehouse built on a railway siding where it stored its goods for supply and its produce for sale. It had also a branch warehouse in the district. The

(c) Fear of Unlimited Liability.

Two Limited Liability Societies.

¹ In the Raiffeisen Federation 900 village banks invested over £5,000 each, and the total investment of 4,430 societies amount to 20 per cent. of their total liabilities.

most characteristic feature of the other society was the variety of its membership. There were 39 landowners with properties of all sizes up to 75 acres, and in addition a pleasant medley of market-gardeners, priests, shopkeepers, butchers, blacksmiths, cartwrights, shoemakers, and barbers; also a doctor, teacher, factory owner, merchant, shop-assistant, builder, railwayman, locksmith and policeman, in all 75 members. So great a variety is exceptional, but it is more likely to be found with limited than with unlimited liability.

In both societies shares were only 20 marks, but each share carried a liability of 200 marks. The tendency now is against a large unpaid liability. Four or five times the amount of the share is usually considered ample. But few of the banking authorities I consulted were prepared to lay down a fixed ratio. Most agreed that each case must be decided on its merits, and that the principle to be followed in every form of society was that members' resources should be more than sufficient to cover their liability; and in this connection it should be remembered that 'a man is good security to a bank for a portion only of what he is worth.'¹

Loans are made without security up to $\frac{3}{4}$ of a member's liability. This is the rule in Saxony and not one to be copied in India. Credit is freely given beyond this limit, but in that case there must be security. In the smaller of the two societies only one member had been sued in 12 years.

In both societies the Secretary is paid and is on the committee. It is only in Bavaria and in the societies affiliated to the Raiffeisen Federation that this is not the case. Our practice in the Punjab tallies with the latter and is, I think, sound.²

A remarkable feature of the smaller society is that every member has a cash credit account and a cheque book. This is a point of development which few village banks have reached. In Italy for instance cash credit accounts are hardly used at all, and in the smaller German societies not more than 10 per cent. of the members will have them. In the larger societies, especially those in industrial areas, the average proportion will be 20 or 30 per cent.³ Few of the smaller peasant proprietors understand

¹ *Rae's Country Banker*; see also Appendix (c).

² In Italy practice varies. In the Wellembourg banks the secretary is paid and therefore not on the committee. In the Catholic societies he is a member but is often unpaid, in which case there is no objection.

³ The Raiffeisen Federation statistics for 1918 show that out of nearly 500,000 members 20 per cent. had cash credit accounts.

the cash credit account, but there is a marked tendency at present to develop its use, and in urban banking, both in England and Germany, it has now become the chief medium of business.¹ It is an obvious commercial convenience and entirely unobjectionable when there is a good business habit; but where, as in India, habits are lax and men improvident, it should only be introduced with caution, for it deprives the society of all control over its members' expenditure.²

18. All through this chapter the German "Savings and Loans Bank" has been spoken of as a village bank. This has been done because most of them are nothing else. But it should be remembered that a certain proportion are in small industrial centres or in villages so large as to be nearly towns. I saw one for instance in a townlet of 2,500 inhabitants which had 20 factories. Its president was a butcher and it included proprietors, petty officials and artisans. Another with 350 members and deposits of over 2 million marks was in a small watering place and half the hotel-keepers were members of it. Both these societies more nearly resembled the urban bank, which will be described later,³ than the type of village bank with which we are familiar in India.

19. Before closing this account of village banks some further mention must be made of Italy and Ireland. About Italy there is little material to add. In the North organization has been entirely spontaneous, but in the Southern half of the peninsula private effort has been feeble, and special laws dealing with agricultural credit have had to be passed. The *Casse Rurali*, as the village banks are called in Italy, fall into two groups, the Catholic organisation with 2,250 societies and the *Wollembourg Federation* with 450.⁴ The Catholic societies are said to be organised into 57 Audit Unions, but in Italy all organisation is loose and most of it new. Both groups closely resemble the *Raiffeisen* societies in Germany. The main points of difference, most of which have already been noted, may be summed up as follows:—

- (1) In Italy there are no shares, whereas in Germany every society must have a share under law.

¹ In Bavaria a cash credit account is sanctioned in the first instance for a year. It is then allowed to run on indefinitely and the responsibility of the sureties continues accordingly, until notice is given—cf. also paragraphs 138 (g) and 143 (b).

² Mr. Wolff is emphatically opposed to it for India describing it as 'a most risky business.....avowedly done to save trouble,' *Bengal Co-operative Journal*, May 1918.

³ Chapter II.

⁴ The first was founded at Loreggia (near Verona) in 1883.

- (2) In the Catholic societies no security is taken and in the others only for the larger loans. Mortgage security is avoided as it is difficult to liquidate.
- (3) Interest rates are higher than in Germany, occasionally touching $8\frac{1}{2}$ per cent. The margin between the borrowing and the lending rate is also higher, being 2 to $2\frac{1}{2}$ per cent.
- (4) Cash Credit accounts are seldom, if ever, used.
- (5) Banking and supply are combined as in Germany but co-operative sale is rare.
- (6) The Catholic societies have a confessional basis, for no one but a Catholic may be a member.¹

In a country where religion and politics are closely allied this is an important difference. The Wollembourg banks on the other hand are neutral and, like the Raiffeisen societies in Germany, seek merely to emphasise the common ties of Christian fellowship.

20. Like Italy, Ireland too has adopted the Raiffeisen system and there are not many distinctive features to be noted. Loans as a whole are for smaller amounts than in Germany and for shorter periods not usually exceeding a year. Unlike the Punjab a second loan cannot be had till the first is repaid. There are, however, means of evading this. Two sureties are required for each loan, but in spite of this loans are not always properly applied nor are repayments always genuine. 5 to 7 per cent. is charged for loans and about 4 per cent. paid for deposits, which are usually at call subject to a month's notice. If deposits are insufficient an overdraft, guaranteed jointly and severally by the committee, is obtained from the local joint stock bank. As in the Punjab, this guarantee is sometimes found to be an embarrassment, as a guarantor cannot easily be removed from the committee. General meetings are only held once a year and attendance is poor. In the three societies I visited it averaged less than 10 per cent. of the whole. This is one reason why these credit societies in Ireland have gone downhill.² Yet that members have reason to be grateful to these societies is shown by a case I came across of a tenant with a 12-acre farm who ten years ago owed £70 and now has a deposit of £700.

¹ This does not apply to other forms of Catholic co-operative societies.

² "The members do not attend annual meetings and in course of time forget they are a Society."—*Better Business*, February 1917.

21. Considering the importance and the rapid progress of village banks in Germany, it is matter for regret that in Italy they are virtually at a standstill and in Ireland actually declining.

Want of Central Banks
in Italy and Ireland.

Of the 100 or so that remain in the latter only half are said to be vigorously active. Both in Italy and in Ireland the same cause has been at work. Superficially it appears to be due to the prosperity of the farmer who no longer needs to borrow. But the real reason is the lack of central banks and the consequent failure to encourage thrift.¹ As was pointed out in the earlier part of this chapter,² thanks to an admirable system of central banks, the village banks in Germany have been able to act as suckers and to draw in the wealth of the country-side, which has been freely used to finance the other branches of the co-operative movement. In Italy there are many hundred non-credit societies in need of capital, and in Ireland last year the Agricultural Wholesale Society was in the same plight. In both countries capital is probably available, but there is no organisation to attract it to where it is wanted. It is only recently that the Catholics have started a central bank at Milan, but it is not yet in touch with the village banks, nor perhaps does it fully realise their possibilities.³ In Ireland the effort to found a central bank failed. The result is that the village bank is being allowed to die a natural death, and the less attractive, because more commercial General Purposes Society is being erected in its stead.⁴ India may well congratulate itself that it has followed Germany in spreading a network of central banks over the whole country. If only the habit of depositing can be taught, the future of her village banks should be assured.

22. It is clear that, with the example of Germany before her, India need not regret the concentration

Importance of Education.

of her effort upon village banks. For many years and perhaps for as long as Co-operation endures, they must

¹ Since writing the above I have come across the following passage in an article by Mr. Lionel Smith-Gordon in the *Economic Review* (September 1917) which corroborates the view expressed:—

“The competition of the Post Office Savings Bank, combined with the habitual distrust of the Irish farmer for any financial institution which has not Government backing, has made it extremely difficult for most of these societies to obtain deposits. As a consequence the ‘thrift’ which was so essential a feature in the German model has been rather lost sight of in Ireland, and the agricultural banks have tended to become indeed ‘credit societies’ rather than true banks. The unfortunate result of this is that they do not act as collecting centres for a central body as is so largely the case in Germany and Austria, and thus they do nothing to relieve the chronic scarcity of capital from which the whole movement suffers.

² Paragraph 6.

³ See paragraph 49.

⁴ See paragraph 152

remain the foundation of her co-operative system. We have now reason to hope that in time this system will embrace many millions of her population. The foundation must therefore be secure. But it is a question whether a foundation can be secure which rests upon the illiteracy of a continent. This vast illiteracy is one of the cardinal differences between India and Germany.¹ To most co-operators it is an argument for schools, more schools and still more schools. To some, however, it is a question whether the primary school in India really educates. If this view is correct, the only ultimate remedy is to improve the schools. Meanwhile there is one school that teaches nothing but good, and that is the village bank itself. In this school the qualities that the whole world most needs at present, industry, thrift, self-help and mutual help, are taught daily in their most elementary form, for these are the fundamental principles of Co-operation. In Germany the greatest stress is laid upon teaching, and throughout the country short courses in co-operative theory and practice are constantly held.² But so far they have barely touched the rank and file. There are signs, however, that systematic effort will now be made to educate them. This is significant in a country which has as fine an educational system as any in the world, and for India where nine out of ten co-operators can neither read nor write the moral is obvious. We must educate our members and educate them ceaselessly, and as it is easier to educate a small class than a large, we shall be well advised to keep our societies small. If this course is followed, India's foundation will be strong.

¹ The difference is less marked in the case of Italy which in 1911 had an illiterate percentage of 37.6—Zimmern and Agrati, *New Italy*, page 113. In the Punjab (1921) the percentage is 96.

² See paragraph 24.

CHAPTER II.—Federations and Unions.

23. I come now to the dull, but important, subject of organisation. In this field Germany is pre-eminent. In agriculture before the war she owed her superiority over England not to better farming but to better organisation,¹ and in the kindred sphere of Co-operation her success has been achieved in the same way. Her organisation must therefore be described, but, as the subject is complicated, I shall confine myself to the agricultural side of the movement.

24. When a village society is formed, it is at once affiliated to three co-operative organisations, to a Central Bank for finance, an Agricultural Wholesale Society for supplies, and to the local provincial Union for audit, inspection and control. In its turn the Union, with a few exceptions, is affiliated to a national Federation at Berlin. At Berlin there are two rival institutions, the Raiffeisen Federation and the Imperial. The former was founded by Raiffeisen in 1877 and at the end of 1920 embraced 7,192 societies. The Imperial Federation, founded by Dr. Haas in 1883, is much larger, and at the end of 1920 included 21,297 societies or two-thirds of all the agricultural co-operative societies in Germany. For a brief period before the war (1905—1913) these two federations were amalgamated, but union was never real and, when in 1913 a personal question arose as to the leadership of the movement, they parted company. Since then Germany has been shaken to her foundations, and the need for union is greater than ever. Accordingly there is once more a general disposition to unite. But once bitten, twice shy. In 1905 union came from above. This time it will have to come from below.

The main differences between the two federations turn upon centralisation and State help. The Raiffeisen Federation worships the one and abominates the other. Its banking system, for instance, is based upon a single central bank at Berlin, which by means of 13 local *branches* operates throughout Germany. The Imperial Federation system is totally different and will be described in the next chapter.² It is entirely decentralised and hinges at Berlin on a large bank,³ with which the

¹Middleton, *Report on Recent Developments of German Agriculture*. This view is, however, challenged in the *Economic Journal* (September 1917) by Mr. R. Hawtrey, who attributes German superiority to an abundant supply of cheap labour.

²Paragraph 36.

³The Prussian Central Co-operative Bank,—see paragraph 45.

Raiffeisen organisation will have nothing to do as it is a State creation. Recent developments, however, have done much to narrow the margin of difference between the two federations, for, on the one hand, the great financial weakness of post-war Governments has made apparent the danger of dependence upon them, and on the other the rapid increase in the number of societies has made centralisation increasingly difficult. The Raiffeisen Federation, therefore, is more disposed to decentralise and the Imperial Federation to rely upon its own resources.

The other differences between the two federations are not (b) Minor Differences. important. Briefly they are as follows:—

(1) The Raiffeisen Federation insists upon unlimited liability for all its village banks. The Imperial Federation, while agreeing in the general principle, allows its societies more latitude.

(2) In village banks the Imperial Federation favours large, the Raiffeisen Federation small shares, the one body aiming at financial strength and the other at the inclusion of the poorest.

(3) In Raiffeisen societies the secretary is never on the committee except occasionally in non-credit societies requiring expert control, and management is more entirely, though not exclusively, honorary.

25. It is clear that none of these differences is fundamental, and it may almost be said that there is now no essential difference of policy or principle between the two federations. The great obstacle to fusion is the number of rival Audit Unions. It was explained above that, when a village society is formed, it is forthwith affiliated to the local Audit Union, which in its turn is generally affiliated to one or other of the two national Federations at Berlin.¹ These local Audit Unions are to be found throughout Germany, often side by side in rivalry which is not always friendly. Out of the 13 provinces of Prussia only two have a single Union.² The Rhineland has no less than four, and Bavaria has the same number. Altogether there are fifty Audit Unions for agricultural co-operative societies, of which 13 are affiliated to the Raiffeisen Federation and 27 to the Imperial. The remaining 10 are independent and of no great importance.³

¹In German the same word 'verband' is used for both federation and audit union, as the functions of both are similar, the main difference being that a federation operates throughout Germany and a Union in a much smaller area. Mr. Cahill distinguished them by different names and I follow him as it is clearer.

²Westphalia and Hanover.

³Five have less than 100 societies.

Though it has stimulated competition it is now admitted to be a disadvantage to have more than a single Union working in the same area. In one village I visited there were as many as 6 societies affiliated to three different Unions, and they included rival basket societies as well as rival banks. This of course is expensive in control and occasionally, too, in temper. On one occasion, when feeling ran high between two of the three Unions, the members of the opposing parties attended general meetings armed with knives. A co-operator who is president of two societies in the village, and manager of a third, each of which belongs to a different Union, remarked that his position at the time was one of great delicacy. This instance is of course an extreme case, but it shows the dangers of a divided house. These are now realised and a more co-operative spirit is in the air. In Brandenburg and Silesia the local Unions have set up joint committees to decide common policy and deal with matters of general interest, and in the Rhineland three of the four Unions have combined to form a joint agricultural wholesale society for the whole province.¹ These are promising signs and encourage the hope that the two national federations will eventually amalgamate.

26. Even when this occurs there will still remain the formidable problem of uniting urban and agricultural Co-operation in one organisation. We have already seen that in addition to the two agricultural bodies there are two national urban federations, one at Hamburg for consumer societies and the other at Berlin for urban banks and industrial societies.² It is significant of the tendency of the time that in 1916 a joint consultative committee called the "Freier Ausschuss" was formed by the four national federations to protect and further their common interests. The committee, which meets once or twice a month, is entirely informal and has no legal existence or executive authority, but it forms a useful plank bridge between the four federations and may in time develop into something more substantial.

27. Co-operators in India may congratulate themselves that State control has given each province an undivided, and indeed almost a national, organisation. Not only are there no competing elements in the field of agricultural co-operation, but urban and rural societies are everywhere united in the same federation or union. This is partly due to the small number of urban societies, and it is significant that in one province, where they are increasing fast, there are signs of separatist tendencies. This should be

¹ Described in paragraph 53.

² See Introduction, paragraph 7.

strongly discouraged, for India has no greater advantage than the close alliance of town and country in her movement. So far as I know, it is an advantage denied to every important country in Europe.

28. Some details must now be given of the working of the German organisation. More will be said of the Raiffeisen than of the Imperial Federation system, for though the Imperial is larger the Raiffeisen is better organised and consequently more efficient.¹ Nothing could be better than the constitution of its national Federation at Berlin, and though few things are duller than constitutions, this one deserves attention if only for its ingenuity in adjusting the ever conflicting claims of democracy and efficiency. Membership is confined to —

- (a) local unions (13),
- (b) central societies for banking and trade (12), and
- (c) primary societies of every description,² provided they are affiliated to their local unions. At the end of 1920 these numbered nearly 7,200.

There is a large general committee of 51 members and a smaller executive committee of 14. The former meets at least twice a year, and its main duty is to exercise the control which the 7,200 members of the federation are obviously unable to exercise for themselves. The executive committee meets about once a month, and to deal with urgent or complicated business has a standing sub-committee of four elected for 3 years. It consists of the president of the Federation and of the presidents of the 13 affiliated Unions. The members of the general committee are virtually delegates of the Unions and central societies, by whom they are chosen according to a fixed scale of representation. Both committees therefore are more representative than democratic, and the smaller committee is in addition highly expert. To link these two committees together the executive committee are all members of the general committee, and to secure proper consideration of the great variety of subjects arising, there is a special committee for each of the more important forms of co-operative society. To keep these special committees in touch with the executive, each is represented on the general committee. The president of the

¹ The Bavarian Agricultural Union, to which frequent reference will be made, belongs to the Imperial Federation system, and is as efficiently organised as any Raiffeisen Union, but that is largely because it has modelled its organisation on the Raiffeisen system.

² Application for membership must be made. In the case of the Imperial Federation it is sufficient to be a member of an affiliated Union.

Federation is elected at a joint sitting of the general committee and the corresponding committee of the Raiffeisen Central Bank. The reason for this is explained later.¹ Supreme authority in the federation nominally vests in the General Assembly, to which every member-society or union can send a representative. But it only meets once a year and, though it has certain prescribed powers, it does little more than ratify what is proposed. It has no right of election and is, in fact, more a congress than a parliament. At the same time it provides the necessary democratic basis, and it enables policy to be explained and grievances to be ventilated.

The constitution of the Imperial Federation is not radically different.² Like the Raiffeisen Federation its basis is democratic, its control representative and its management expert. For a large organisation these are the essential principles, and there is no other way of combining democracy and efficiency.

29. These two great national federations will be a useful model when the time comes, as assuredly it must, to form a single federation or union for the whole of India. For the present, however, we must be content with provincial Unions or Federations. To these the counterpart in Germany is the local Audit Union. The main difference is, that the area covered by a Union is much smaller than an Indian province and does not usually exceed a Commissioner's Division.³ Another difference, so far as the Punjab is concerned, is that in Germany the primary society is *directly* affiliated to the Union. It is, I think, a flaw in the constitution of the Punjab Union that the majority of the village societies are represented in it by central banks whose interests are not always the same. It would doubtless be difficult to give direct representation to a body of societies which now numbers over 8,000 and is rapidly increasing. The largest Union⁴ in Germany has only 3,300 societies. On the other hand, the Imperial Federation gives separate representation to nearly 22,000 societies scattered over the whole of Germany, which shows that neither number nor distance is an insuperable difficulty. Though of course the vast majority of these societies do not trouble to send representatives to a general meeting, the attendance will often exceed 1,000; and as these

¹ Paragraph 30.

² There are 2 committees, the smaller elected by the larger, and as the smaller consists of only 7 members, no standing sub-committee is required. The president of the federation is proposed by the smaller committee and elected by the larger. The 27 local Unions affiliated to the Imperial Federation are represented on the larger committee by their presidents. In other respects the constitution agrees with that of the Raiffeisen Federation.

³ Bavaria with 7 million inhabitants is the largest area covered by a single Union.

⁴ The Bavarian Agricultural Union at Munich.

meetings are held every year in different parts of the country, sooner or later the societies in every area get an opportunity of attending without difficulty. It can be readily imagined that the effect of such meetings will be far greater than if attendance were confined to a limited number of representatives of central societies. A way out of the difficulty might be to organise societies into district or sub-divisional unions, which would then become members of the provincial Union, on which they would represent the interests of their affiliated societies. Somewhat similar unions exist in Germany and will presently be described.¹

Where there are so many Unions there must of course be many differences of constitution. The Bonn Union for instance with 550 societies follows the lines of an ordinary German co-operative society; that is to say, it has two committees, large and small, and a president elected by the general assembly. On the other hand, the Raiffeisen Union at Coblenz which has 600 societies, with the love of centralisation and efficiency which characterise the Raiffeisen organisation, gives great power to the president who is appointed for a minimum of 6 years.² He has only a single committee to deal with, and as it is too large to do more than exercise a general control, his position is one of considerable freedom and responsibility. He is therefore elected not by the general assembly but by the committee which can be trusted to choose with discretion.

All these Unions are primarily concerned with audit, control and development, and maintain a carefully trained staff of auditors and inspectors for the purpose. Incidentally, too, instructional courses are held for co-operators, conferences are organised, statistics are collected and as often as not a periodical is published. In aim, scope and function they exactly resemble our provincial Unions, with however the important difference that they are entirely unofficial. Before the war many received financial assistance from Government³, but now that the public exchequer is empty they have to depend upon their own resources. As with us every affiliated society makes an annual contribution, which is usually assessed as follows, *viz.* :—

(a) a fixed fee irrespective of the size of the society,

¹ Paragraph 31.

² Technically he is honorary as the Union cannot afford to pay him, but as managing director of the local branch of the Raiffeisen Central Bank he receives a salary. This applies generally to the presidents of all Raiffeisen Unions.

³ Not however the Raiffeisen Unions which have always eschewed State help.

(b) a percentage payment on turnover, and sometimes on net profit as well, and

(c) an audit charge which varies with the length of the audit.¹

Any deficit on the year's working is usually made up by the local central bank, which in Germany is fully persuaded of the importance of maintaining an efficient staff for audit and control.

It is difficult to compare charges in one country with those in another, but my impression is that, with the possible exception of supply societies, the annual contribution is proportionally higher in Germany than in the Punjab; and it could hardly be otherwise as the Unions are now entirely self-supporting, whereas in India a large part of the cost of control is borne by Government. The two national federations are also self-supporting and maintain themselves from the contributions of their affiliated central societies. They do for the latter what the local Unions do for their primary societies, but their chief function is to give agricultural co-operation cohesion and strength, to determine its policy and course, to defend its interests and make known its achievements.

30. In India the relation of central banks to the audit and inspection of primary societies has been a much debated point. Some would give the central bank full control, others none at all. In Germany opinion is emphatic that the central bank and the controlling Union or Federation should be separate organisations; but as legs would be useless if they attempted to walk in opposite directions, it is also agreed that they should be closely interlinked. This is done by exchanging representatives to sit on each other's committees. In the Raiffeisen organisation, with its one central bank for the whole of Germany, the president of the national federation is also president of the central bank, and is elected at a joint sitting of the general committees of both bodies. Similarly, in the provinces the president of the Raiffeisen Union is always managing director of the local branch of the Raiffeisen central bank. In this way

¹ These fees are too complicated and variable to give in detail, but (a) is usually 5 shillings (50 marks), and (b) varies from 1/20th to 2/5ths *per mille* of turnover, the rate diminishing with the amount of the turnover and varying with the form of society. In every case it is subject to maximum limits which in one Union do not exceed £25 (4,000 marks). If a percentage of the net profit is taken it will be about 2 per cent.

For (c) a daily charge is usually made. In 2 Bavarian Unions societies pay six pence (5 ma k.) an hour, but in one case, if the audit is satisfactory, 2/5ths of the fee are returned to the society by the Central Bank concerned (not the Union).

the latter throughout Germany is riveted to the Raiffeisen federation system, and identity of policy is secured. The same policy is followed with the Agricultural Wholesale Societies, for the president of the Union is always either president of the local 'wholesale' or on its directorate. In the Imperial Federation, too, it is an accepted principle that the Federation and its central societies, though separate in constitution, should form an inseparable whole.¹ Italy is adopting the same principle, and India will, I think, be wise to do the same.

31. Throughout the Raiffeisen organisation the first link in the chain, which binds the village society at one end to the national federation at the other, is the small sub-divisional Union, to which reference has already been made.² This must not be confused with the local Audit Union which covers a far larger area and has widely different functions. Every State in Germany is divided up into administrative units which, broadly speaking, resemble those obtaining in India. Thus a province of Prussia, or a federal State other than Prussia, roughly corresponds with a Commissioner's Division, while the 'Bezirk' resembles the Indian district and the 'Kreis' the sub-division.³ It is from societies in the 'Kreis', generally 15 or 20 in number, that the sub-divisional Union is formed.

(a) Their Object's.

Its main objects are -

- (1) to act as a link between its member societies and the local Audit Union and to co-ordinate the interests of both ;
- (2) to develop Co-operation in the sub-division ;
- (3) to bring the full weight of their member-societies to bear upon the solution of agricultural problems ; and
- (4) to elect a representative to sit on the general committee of the local Audit Union. In practice this is the most important function of all.

In some respects these small sub-divisional Unions recall our Banking Unions, but there is this fundamental difference that they have no banking functions or financial liabilities.

¹In the province of Saxony, for instance, the president of the local Union is also president of the Board of Supervision of the local Central Bank, the Agricultural Wholesale Society and the Central Cattle Sale Society.

²Paragraph 29 (a).

³In Bavaria Bezirk and Kreis are inverted.

They exist solely for purposes of organisation, and their chief merit is that they provide a convenient means of securing effective representation on the local Audit Union for a large number of widely scattered societies. In the Imperial Federation system they play a much less important part than in the Raiffeisen organisation, but there too the tendency is in favour of their extension, especially in the larger provinces where they are now considered a necessity. In Bavaria they are regarded as the cornerstone of the whole fabric, and the Bavarian Agricultural Audit Union has not only grouped its 3,300 societies into 144 sub-divisional Unions, but has also formed the latter into 7 district unions. These, however, have little life beyond what is infused into them by the local inspector.

The value of the organisation may be questioned. Success depends upon the existence of good local leaders, and relatively these appear to be almost as difficult to find in Germany as in the Punjab. for both countries depend in the main upon the small or medium proprietor who has not usually much aptitude for leadership.¹ Most sub-divisional Unions, therefore, rarely meet more than once a year and many do not meet as often. Out of 310 Unions belonging to the Raiffeisen organisation barely half held meetings in 1919. In some provinces they do well, in others badly. In Rhineland they have little life, but in Thuringia, thanks to a body of public-spirited schoolmasters, they are reported to be vigorous. In Bavaria, where the system is most developed, 60 per cent. are said to be good and the best amongst them meet five or six times a year; but even there it is admitted that a certain number have only a paper existence. At its best the sub-divisional Union is evidently a valuable asset; and even at its worst it secures the village society a voice in the counsels of the local Audit Union, for the general committee of the latter mainly consists of Union presidents. There is no doubt, too, that a man can speak with more authority if he represents a Union, than if he merely speaks for a single society; and speaking with more authority he is better able to protect the interests of the smaller societies which might otherwise be ignored. As organisation grows, the voice of the cultivator, who is the backbone of the movement, is in danger of being lost in the upper air of authority and wisdom. Accordingly it is important to give him every opportunity of making himself heard. This is the chief value of the sub-divisional Union in Germany and the argument for introducing it into the Punjab. I do not, however, advocate

¹ Even in the United States the great difficulty in the way of the organization of rural communities is said to be the lack of leaders—Carver, *Principles of Rural Economics*, page 379.

this till the matter has been more fully discussed. It is important to keep our organisation simple, and we certainly do not want it clogged with a large number of stillborn Unions. Yet, where good leaders are available, the Union might be of great value.

32. Throughout the movement the question of leadership is important. Leadership postulates education, and for this in India we have to a great extent to go to the town, but unfortunately the townsman is little attracted by Co-operation. There is, moreover, a marked cleavage between town and country which makes his employment in the villages difficult, if not impossible. In Germany a somewhat similar cleavage has appeared since the war, half famished towns resenting the high prices demanded by the prosperous country. But this is of recent growth and is probably only temporary. Speaking generally, it may be said that in Germany the 'management' of the agricultural movement has been supplied by the town, and direction and control by the country. The managers of the larger banking and trading organisations are mostly townbred, but the directors of federations, unions and central societies mainly belong to the country. There is however no hard and fast line, and nearly one-third of the 27 Audit Unions affiliated to the Imperial Federation have presidents who were born and bred in the town. These include two businessmen, two lawyers, a priest and an official. Germany, in fact, has not hesitated to draw upon all classes for the qualities she required, and much of her success may be attributed to this. In so catholic a movement as Co-operation this is undoubtedly the best policy. Hitherto in the Punjab there has been little scope outside the central banks for the employment of the educated townsman, but as the urban and trading sides of the movement develop, more opportunities will doubtless arise. The problems of Co operation are becoming increasingly complex, and ultimately the best brains available, whether of town or country, will be required for their solution. No one could fail to be impressed by the high level of industry, capacity and intelligence to be found throughout the German organisation. Everything possible should be done to attract these qualities to the service of Co-operation in India.

33. The primary function of a German Audit Union, as of our Punjab Union, is the audit of its affiliated societies. Under law every society must be audited once every 28 months.¹ For this purpose every Union employs a staff of auditors

Auditors—(a) Their Importance and Training.

¹ Before the war it was every 2 years. The period was extended, as so many auditors were mobilized. It will probably be reduced again in due course.

corresponding in function and status to our sub-inspectors. As in the Punjab, so too in Germany the auditor is the pivot of the machine. A recent annual report of the Imperial Federation states that his importance cannot be exaggerated. He is the servant of the whole organisation and the *personal* link between the Audit Union and its affiliated societies. His training consequently requires the greatest care. The Secretary of the largest Audit Union in Germany went so far as to say that it was their most important task. The actual training course varies from place to place, but the general system may be judged from the following course which the Raiffeisen Union at Coblenz prescribes for its recruits:—

- (a) Three to six months at the headquarter office to learn the routine work of the system;
- (b) Three months or more with an experienced auditor in the field, till three or four independent audits have been satisfactorily done;
- (c) A six months' course at Berlin for a thorough grounding in accounts, and in the principles and practice of Co-operation;¹
- (d) Three or four months in charge of a small circle under supervision, followed by a practical examination in the field and by another in theory at headquarters. If this is satisfactory, the auditor is finally appointed on five years' probation.

It will be seen that the course lasts about 18 months and is therefore three times as long as ours. Another important difference is that no one is appointed a full fledged auditor till he is 21 or 22 years old. Our sub-inspectors are, I think, employed too young.

✓ 50 or 60 societies are usually considered sufficient for an auditor, but salaries are now so high that few federations can afford to work to this scale.

(b) The Audit.

The largest Union in Pavarria has one auditor to 80 societies, and in the province of Saxony the proportion is as low as 1 : 100. Most societies are audited once every 18 months or 2 years, but the general aim is to have it done once a year as the advantages of audit are so great. Of these advantages a Pavarrian annual report speaks with enthusiasm. A regular audit, it says, brings new life to secretaries and committees, purges the latter of undesirable

¹ Some consider three months sufficient when the course follows practical training.

members, strengthens the co-operative spirit, and affords an admirable opportunity for teaching. Experience in the Punjab would certainly endorse this. Audits naturally vary much in length. The report of one Union for 1919 states that the shortest took 4 hours, the longest 541. For an audit done every second year the average is 5 or 6 days.¹ To ensure good work many Audit Unions have a limited number of societies re-audited. This is done by a class of men generally resembling our Inspectors.

The field staff is not, as in the Punjab, chosen exclusively from the rural classes. The business and trading side of the movement is too important for the quicker brain and better business aptitude of the commercial classes to be passed by, though it is admitted that the countryman understands the peasant best. In this last respect Bavaria recalls the Punjab, for rural psychology is said to be quite different from urban, and the townbred to be of little use in rural work unless he is familiar with the agriculturist. At the same time it is clear that there is not the sharp division that differences of occupation, religion and caste have produced between town and country in the Punjab. In Bavaria, as elsewhere in Germany, the constant migration from the country to the town has partially bridged the gulf. Consequently many townsmen have country blood in their veins which stirs again when they return to the country.

A word must be said about the educational qualifications of the auditor, as on the whole German experience confirms our practice in the Punjab. The audit staff is for the most part recruited from the high schools and only to a minor extent from the universities. For the practical work of audit a high school education is more than sufficient, but an auditor of co-operative societies is much more than a mere auditor of accounts. Like our sub-inspectors he is, or should be the guide, philosopher and friend of his societies, and for this side of his work a university education with its broader outlook and finer grasp is an advantage. Both types are therefore taken, but the difficulty with the university man is that he is ambitious and rarely stays. He tends to be more and more employed in the higher grades, but in at least one important Union I came across a prejudice against him, mainly confined however to non-graduates.

To most people the points I have mentioned in connection with auditors will appear of little importance, but for those

¹ Before the war it was shorter, but now the activities of credit societies are more varied.

who have had practical experience of co-operative work in India, there is a considerable interest in finding the same questions arising in two countries so widely different as India and Germany.

34. At the end of the last chapter it was said that education is the foundation of a sound co-operative system. It is natural, therefore, as the movement develops, to find more and more importance attached to training courses for co-operators. These are organised by the Audit Unions and generally last four or five days. All sorts of people attend. The bulk of course are peasant proprietors, but there are also large land-owners, priests, schoolmasters, petty officials, inn-keepers, traders, craftsmen and a good sprinkling of women, who are often the wives and daughters of members of committee.¹ At Coblenz last year, as a new experiment, a series of one-day courses was held to teach the rudiments of co-operative finance, and it was so successful that it is being repeated. There is not a doubt that these training courses are of the utmost value, and men who could judge their effect spoke of them with precisely the same enthusiasm that I have heard expressed by our Inspectors in the Punjab. In Italy, too, where they are being introduced, there was the same unqualified tribute to their value. Not only do they lead to a higher standard of work, but in bringing together members of different societies, they enable co-operators to get to know each other, to exchange views and experience and to form valuable personal ties, all of which helps to develop the corporate feeling and enthusiasm so essential to real Co-operation.

35. I cannot conclude this chapter without a word about organisation in Italy. Nothing is in greater contrast to Germany. Before the war it hardly existed. Now innumerable Audit Unions² are springing up, and Catholic and Socialist are competing feverishly to out-strip each other. Few of these Unions are more than a year old, and many still can boast little beyond an address. In the matter of organisation, therefore, India has nothing to learn from Italy. At the same time it is worth noting that broadly speaking the German system is being followed, with however two important differences. In Germany agricultural organisa-

¹In 1920 the 13 Raiffeisen Unions, embracing only 7,200 out of 33,000 agricultural societies organised as many as 123 courses, fifty of which were attended by 1,593 co-operators. These included over 800 peasant proprietors, 299 officials, 134 craftsmen and 79 women. Amongst the officials were Munsiffs, burgomasters, headmen of villages (Gesindevorsteher), schoolmasters, tax-collectors, postal assistants and clerks. The craftsmen consisted of bakers, blacksmiths, joiners, carpenters, wheelwrights, masons, shoemakers, saddlers, tinkers, tailors.

²The Italians call them federations. Throughout this report they are referred to as Unions as they resemble the German Audit Unions.

tions, though to some extent competitive, are definitely ranged on one side and urban on the other. In Italy, on the other hand, the line of cleavage is not economic but political. Thus Catholic Unions and Federations, though mainly agricultural, include town as well as country, and Socialist organisations though predominantly urban include country as well as town. This would be a great advantage if it were not crossed by the bar sinister of politics. The second difference is that, whereas in Germany an agricultural Audit Union or Federation includes every possible class of rural society, in Italy separate Unions and Federations are formed for each of the main branches of Co-operation, namely, consumption, production and credit. This means a looser organisation and a great multiplication of Unions. In every district Catholic and Socialist are each forming a twin, if not a triple system of Unions. In a single district there may easily be as many as five Unions,¹ and as there are in Italy 71 different districts, the number of Unions will soon run into hundreds. The Catholics alone have 217. Each district Union is affiliated to a corresponding Federation for all Italy at Rome, and the Roman Federations in their turn are affiliated to a grand national Federation, Socialist or Catholic as the case may be.² These national Federations are the coping stones of the movement, but though in each case the temple is dedicated to Co-operation, there is nothing less co-operative than the relationship between the two. Midway between them there is another and professedly neutral organisation³ built up on similar lines, but wielding far less influence in the country. This body, too, is doing its utmost to swell the rising flood of district Unions. Seeing how recent organisation is in Italy, it is not surprising to find that audit, inspection and control are as yet in their infancy.⁴ For this the law is partly responsible, as audit is not compulsory and only the Catholic societies enforce it. This is about to be changed, and in other ways too Italy is improving her methods. But it may be doubted whether her organisation will ever be as good as the German, for organization on a large scale is as foreign to the genius of her people as it is natural to that of Germany.

¹ Catholic and Socialist will each have 2 Unions for consumers and producers societies, and there may also be a Catholic Union for credit societies.

² The Socialist body is called the National League of Co-operative Societies, and the Catholic the Italian Co-operative Confederation. The former claims 5,000 societies, the latter 6,500.

³ The National Association (Sindacato) of Co-operative Societies, which are said to number 2,000.

⁴ The National League last December (1920) had only one Inspector available for touring.

CHAPTER III.—Central and State Banks.

36. It is a natural transition from Federations to Central Banks, for control and finance are the alpha and omega of Co-operative organisation. This is especially true of agricultural co-operation, for the agriculturist is the world's greatest producer, and credit is the basis of production. A good banking system is therefore essential, and this system to be sound must be co-operative. Joint stock banks do not answer the purpose for their aim is profit not service.

No large country has so fine a co-operative banking system as Germany. At the end of 1919 it had 25 agricultural central banks,¹ of which 24 were affiliated to the Imperial Federation and one, the great Agricultural Central Co-operative Loan Bank, to the Raiffeisen Federation. It was explained in the last chapter² how the whole Raiffeisen system is based upon a single bank operating throughout Germany. This is the bank just mentioned, which has its headquarters at Berlin and a branch wherever there is a Raiffeisen Audit Union.³ The Imperial Federation system is different and is based upon each local area, province or State as the case may be, having its own independent central bank as well as its own Union. Thus there are 27 Unions and 24 central banks. For the latter a State bank called the Prussian Central Co-operative Bank serves as the apex bank at Berlin.

37. It is evident that the Imperial Federation system more closely resembles the Indian than does the Raiffeisen. The parallel, however, is far from exact. We have, for instance, no apex bank for the whole of India. Most Indian provinces, too, have both central and provincial banks. The Indian central banks have usually a smaller area than the German, and the provincial banks a larger. The area of the German central bank is generally a federal State or, in the case of Prussia, a province, corresponding roughly in size and importance to a Commissioner's division. It is arguable, I think, that our central banks would have been better for larger areas. A further point of difference between the two systems is that in Germany membership of a central bank, though originally including many individual shareholders, is now almost entirely confined to societies. In

¹ Excluding 3 special trading banks affiliated to the Raiffeisen Federation.

² Paragraph 24 (a).

³ There are at present (1921) 13 branches.

1922 individual shareholders were less than 7 per cent. of the whole compared with 76 per cent. in India. In most German central banks only the members of committee and of the board of supervision are admitted to membership. This is the sounder practice of the two, as the individual shareholder is apt to introduce an element which is often the reverse of co-operative; and as the control of credit becomes increasingly important, the presence of this element in the very centre of the organisation may become a source of danger. It was seen in the last chapter¹ that banking and control, though separate in organisation, should be closely interlinked. This postulates identity of aim. The individual shareholder may make this difficult, unless he is in a small minority. In the Punjab the danger is not so great as in some parts of India, for only 25 per cent. of the shareholders are individuals, but in many banks the proportion is still too high.

38. In the Punjab, central banks are sometimes tempted to trade, and there is, so far as I am aware, no fixed policy on the subject. In Germany it is now an accepted principle that a central bank should stick to banking and leave all trading to be done by a separate agricultural wholesale society. This principle is only seriously challenged in Bavaria, where the old practice of combining banking and trade still survives. Combination is defended there on the ground that banking and trading should support each other, and that a separate trading wholesale society is likely to develop too independent and commercial a spirit. There is something to be said for this point of view, and the best example of it is the Bavarian Central Bank at Munich, the second largest Central Bank in Germany with 2,709 members. It has a network of 117 granaries,² mostly elevators, and in 1919 its turnover for sale and supply amounted to over £900,000.³ It is much the largest single sale society in Germany. Its directors are strong adherents of the system of combination, but everything is done to minimise its dangers, as the bank has a separate department in charge of an expert for each of its principal activities.

There are two main objections to combination. Firstly, it is said that a bank should be run by a banker and a trading concern by a trader. The Bavarian Central Bank shows, however, how this objection may be met. The second objection has more force. Banking, it is urged, is too delicate a business to be combined with trade, and trade too risky to be combined

¹ Paragraph 30.

² See paragraph 74.

³ 180 million marks.

with banking. They are indeed totally different forms of business. They were originally combined in the Raiffeisen Central Bank, but separation finally came in 1911, mainly because the East of Germany resented the trading losses that had been incurred in the West¹. When banking and trading are combined the temptation to milk the bank for the latter is difficult to resist and is apt to lead to speculative enterprise. But where they are separate, a credit limit is fixed for the 'wholesale' as for any other society, and special security is demanded if it is exceeded. Outside Bavaria, with the single exception of Frankfurt, separation is now the universal rule. It will be remembered from the last chapter² that unity of policy and interest is secured by interlinking the local union, central bank and wholesale through their directorates. This arrangement secures the advantages of separation without the disadvantages of combination. In India I have little doubt that, outside the village, banking and trading should be kept apart. Our central banks mostly depend upon a single man, on whom it would be unfair as well as unwise to place a double responsibility. If, however, combination is attempted, there should always be, as in the central bank at Munich, separate branches each with its own manager and accounts.

59. The most important and difficult function of a bank is the fixing of credit, that is to say, the determination of the precise amount that it is prudent to lend to a particular client. An ordinary bank dealing with all sorts and conditions of men must judge each case on its merits. For a central bank dealing almost exclusively with societies scattered over a wide area, this is difficult if not impossible. Nor is it so necessary, as societies are of fixed types and in each type money is required for similar purposes. It is consequently possible to make advances according to a tolerably fixed scale. The main distinction is between societies with limited liability and those with unlimited. For the latter the method adopted by the Raiffeisen Central Bank, the largest central bank in Germany,³ is as follows :—

The total value of the property of a society's members is assessed—

- (a) by the central bank on the basis of the property tax which every German pays, and

¹ In 3 branches, two in Bavaria and one at Frankfurt, separation has not yet been effected.

² Paragraph 30.

³ It has over 5,000 member societies.

(b) by the committee of the society according to their own valuation.

Normally the maximum amount that will be advanced to a society is limited to 10 per cent. of (a) *plus* 5 per cent. of any difference there may be between (a) and (b). This is called *normal* credit. For special reasons another 50 per cent. will be given. This is called *abnormal* credit and is subject to a slightly higher rate of interest.¹

It will be seen that in fixing these credit limits only the property and not the character of the members is taken into consideration; nor is any account taken of whether the society is good or bad. It is assumed that a society's character is too indefinite to form a basis for credit. In the central bank at Bonn, where the same system is followed, a society's character is considered to the extent that before an advance is made the society's last audit report is referred to, and if it is unsatisfactory and the society fails to set things straight, all credit is refused. The Bavarian Central Bank goes further. Character is carefully considered and, as its manager said, "we want people to know that if they work well they will get more." This is the system followed in the Punjab and appears to me the sounder of the two.

Societies with limited liability are advanced up to 75 per cent. of the total value of the liability, provided that the members are considered good for the full liability² undertaken. A society therefore cannot give more credit by the simple process of increasing its liability, unless it can satisfy the bank that there is a sufficient backing of property behind it. This is an important point, for societies with limited liability in the Punjab are apt to think that if they want more money it is sufficient to increase their liability, regardless of their members' resources.³

40. In India central banks were formed to raise the money needed by impecunious village societies. In Germany, on the other hand, though this was also an important object, a principal function in many cases was to distribute the surplus deposits of the more prosperous village banks amongst the more needy. The West of Germany always had more money than it wanted, the East always too little. The one therefore fed the other. Since

¹ The Bavarian Central Bank only allows up to 5 per cent. of (a) and for loans above this amount requires special security.

² The Bavarian Central Bank lends up to half the amount of a society's share capital and reserve *plus* 1-4th of the total liability undertaken by its members.

³ Cf. paragraph 17 (a).

the war, however, the main function of central banks has been less the dispensing of credit than the absorption of deposits which have welled up from every part of Germany. In 1919 the 25 central banks had over £20,000,000¹ in deposit from their 18,000 member-societies, and loaned no more than £2½ millions.² The reason for this has already been explained.³

Only a first-rate banking system could have absorbed such large sums without being glutted. Now that the tide is turning and the demand for money increasing, this immense reservoir of deposits will be a source of strength and a potent means of development. Its importance to the village bank has already been noted and it applies to every class of rural society, for central banks are the main arteries of the whole agricultural co-operative system.

41. Owing to the great increase in deposits, the proportion of share capital and reserve to deposits has sunk in central banks to less than 2 per cent. In German commercial banks it is said to be no more than 4 or 5 per cent.⁴ and in English banks it is, I believe, much lower than before the war.⁵ The remedy is to increase share capital and reserve, and in many cases this is now being done. Most of the central bank authorities I consulted considered that the ratio should be not less than 10 per cent. To them the present state of affairs is a matter of some concern. But so high an authority as Dr. Seelman, the Vice-President of the Raiffeisen Central Bank, saw no reason for alarm, as fluid resource was ample and a co-operative bank, owing to the confidence inspired, was in little danger of a "run." Consequently he thought it unnecessary for a central bank to maintain so high a ratio as a commercial bank. In the circumstances, the central banks in the Punjab with a ratio of 24 per cent. have every reason to congratulate themselves on their strong position.

42. Large as deposits are, fluid resource seems to be ample. Owing to the peculiar circumstances set up by the war it is difficult to judge normal practice in the matter, but it was clear from my enquiries that

Ratio of Share Capital
and Reserve to Deposits.

Fluid Resource.

¹ Over 4,000 million marks.

² For the Raiffeisen Central Bank the figures are even more striking.

Loans to 5,121 members-societies £80,000.

Deposits £6,000,000.

³ Paragraph 4 (Chapter I).

⁴ At the end of 1920 for the eight largest commercial banks' share capital and reserve were 4 per cent. of liabilities (63,346 million marks) — See *Economist*, 16th July 1921.

⁵ In March 1921 for the five largest banks it varied from 6 to 7½ per cent.

the recommendations of the Maclagan Committee on the subject would not have been endorsed. Dr. Seelman considered it sufficient to keep fluid 25 per cent. of the amount on deposit at call, as it is a well-established fact that co-operative deposits 'lie' well. Another high authority thought circumstances and seasons too variable for a fixed ratio to be prescribed. Much depends, too, on what is reckoned as fluid. In the Punjab we include Government securities. This I understand is opposed to English banking practice, as the Bank of England would not necessarily lend on them in a crisis. If there is any doubt in the matter in India, it would be as well perhaps to have a definite understanding with the Imperial Bank. In comparing India and Germany, it should be remembered that every German central bank has in its immediate neighbourhood one or two large commercial banks, to which in an emergency it can turn for assistance. Less cover therefore need be maintained than in India, where banks are forced to rely more upon themselves.

43. I visited four central banks in Germany, but it is unnecessary to describe them in detail, as several typical instances are given by Mr. Cahill in his report on Agricultural Co-operation in Germany.¹ The following points, however, are worth noting :—

Miscellaneous points.

- (1) Dividends are usually limited to 5 per cent.
- (2) Loans to societies are made at $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent. As in the case of village banks,² the margin between the borrowing and lending rates is narrow and does not usually exceed 1 per cent. In India the corresponding margin varies from $1\frac{1}{2}$ to 5 per cent.
- (3) Most societies dealing with a central bank have a cash credit account. In that case a loan will only be taken for a special object.
- (4) Compound interest is charged if necessary. In this respect the Punjab central banks are more co-operative than the German.
- (5) Cheques are cleared both for societies and their members.
- (6) No control is exercised over client societies. This is left entirely to the local audit Union.³

¹ Page 144.

² See paragraph 14 (e).

³ See paragraph 30.

- (7) All banks have managers well trained in banking. It is a weakness of our central banks that the paid staff has so little knowledge of banking. The larger and more prosperous banks could certainly afford to employ better men than most of them have at present.
- (8) The promissory notes of societies are not discounted. In Italy this is done to a considerable extent, not by the ordinary joint stock banks, however, but by co-operative or semi-co-operative¹ banks.

44. Before leaving German central banks the question of an apex bank must be discussed. All banks require support. In England the large joint stock banks look to the Bank of England. In Germany the Schulze-Delitzsch banks have made a special arrangement with the Dresden Bank, one of the five great commercial banks in Germany. The 24 central banks affiliated to the Imperial Federation find their apex bank in the Prussian Co-operative Central Bank which is a State bank. The Raiffeisen Central Bank used to deal with it too, but a difference of opinion, combined with the natural reluctance of a Raiffeisen society to accept support from Government, led to the transference of its custom to the Dresden Bank. In India an apex bank will ultimately be required, but opinion is divided as to the form it should take. The experience of Germany may therefore be of value.

45. Though I visited the Prussian Central Co-operative Bank at Berlin, I do not propose to describe it in any detail as this has already been done elsewhere². A few points, however, may be of interest. £750,000³ or all but a small fraction of its capital is supplied by the Prussian Government, and though the bank has an independent legal status it is in effect a State bank, and all its 400 officials are Government servants. Fifty-three⁴ central banks and associations embracing over 15,000 co-operative societies and 1 $\frac{3}{4}$ million co-operators deal with it, and in addition about 30 wholesale societies. Its deposits total £2,000,000 and almost the same amount is invested in Treasury bills and bills of exchange. These figures sufficiently indicate the extent of its business and its great importance to the co-operative movement.

Unlike the Bank of France, which is bound by an agreement with Government to make large advances to co-operative

¹See footnote to paragraph 48.

²Wolff *People's Banks*, and Cahill.

³150 million marks.

⁴30 are rural, embracing 13,971 societies and 1 $\frac{1}{2}$ million members.

societies at nominal rates; the Prussian Bank, with I think greater wisdom, charges 5 to 7 per cent. for its loans. On the other hand to any one seeking an argument in favour of co-operative management, it is significant that the maximum rate of the Raiffeisen Central Bank is only 5 per cent. In spite of its comparatively high rates the Prussian Bank has unquestionably stimulated growth, just as, to compare small things with great, the rapid progress of the last three years in the Punjab is largely owing to the financial assistance so lavishly given by the more prosperous central banks. In the earlier days of the movement, when it was still financially weak, many societies had little security to offer beyond the liability undertaken by their members. As this was a form of security that the commercial banks did not understand, the Prussian Bank was founded in 1893 to fill the gap. For all societies requiring financial support it has certainly answered its purpose, but now that the German Government is in financial straits the danger of relying upon it is apparent. It is accordingly suggested that it should be amalgamated with the Raiffeisen Central Bank. If this is done Co-operation in Germany will secure an almost ideal apex bank.

✓ 46. Meanwhile, even in the ranks of the Imperial Federation, I found no great enthusiasm for a State bank. It was freely admitted that financial support from Government should only be taken from necessity, that a State bank tends to be rigid and bureaucratic, and that it is liable to interfere in co-operative matters that it does not understand. The further criticism is also made that Government officials cannot have a real co-operative feeling, and that they lack sympathy with the smaller folk who are the rank and file of the movement. The criticism is, I think, just. It is not that Government officials are constitutionally incapable of understanding Co-operation—India is conclusive evidence to the contrary—but ignorance of what it means is profound, and some training is necessary before its objects and methods can be appreciated. Nor is the co-operative spirit likely to flourish in an atmosphere which is not saturated with Co-operation. This could hardly be found in a State bank. In Germany it is secured by bringing Union, Central Bank and Wholesale together under the same roof, an excellent arrangement which should always be adopted in India.

47. So far as a State bank for India is concerned, it is unnecessary at present to express a definite opinion. The experience of Germany shows that there is much to be said against it. The experience of Italy, as will be seen in a moment,

The Apex Bank for India.

is even more unfavourable. The alternative of dealing with a joint stock bank is also open to objection, for capitalism is the basis of all joint stock enterprise, and Co-operation and capitalism do not speak the same language. A possible solution, perhaps, would be to have a *co-operative* apex bank for the whole of India and to link it, under Government control, to the Imperial Bank.

48. In finance as in general organisation Italy is in sharp contrast to Germany. There are no points on which the German system is stronger or the Italian weaker. It has already been observed that progress in Italy has been brought to a partial standstill for want of a good central banking system.¹ Central banks in either the German or the Indian sense do not exist. The Socialists founded a bank in 1904 which now mainly confines itself to the district of Milan,² and the Catholics have recently (1919) started the Bank of Labour and Co-operation to finance their societies throughout Italy. It is too soon yet to judge this stripling bank, but it has made a vigorous start.³ There are many other co-operative or semi-co-operative banks scattered over Northern and Central Italy such as the well-known People's banks, which assist co-operative societies in their neighbourhood; but there is nothing at all corresponding to the German central banks which, like a good canal system, make it possible for money to flow wherever it is needed. One small but significant consequence of this is that, whereas no German village bank charges its members more than 6 per cent. for a loan, in Italy the rate may be as high as 8 or 8½ per cent., though the commercial rates in both countries are approximately the same.

49. To fill the gap a bank called the 'National Institute of Credit' was founded in Rome in 1913 to finance the whole co-operative movement irrespective of party. Though technically not a State bank, it is subject to close Government control and four-fifths of its funds are supplied by the State. It is significant

¹ See paragraphs 6 and 21.

² The Institute of Credit, not to be confounded with the National Institute of Credit described below. The Socialist Federation now proposes to convert it into a national, as opposed to a district, bank to finance the whole of their movement throughout Italy. It would then become "la Cassa delle organizzazioni proletarie"—see *La Cooperazione Italiana*, dated 25th February 1921.

³ It is not a co-operative society in law, but it claims to be one in aim and spirit and has limited its dividend accordingly. Its headquarters are at Milan and it has five branches including Rome, which is the headquarters of its legal department. At present (January 1921) it has only 55 shareholders, viz.—17 co-operative audit Unions and 38 miscellaneous banks of which only half are co-operative societies. Its capital is 6 million lire (about £75,000), and so far deposits only total half that sum, which shows that it has still to secure public confidence. Money is raised by getting societies' promissory notes discounted either by its shareholder banks or by the National Institute of Credit. In this way the bank was able to advance about 60 million lire (£750,000) its first year.

that its deposits last December (1920) amounted to less than £400,000.¹ It is now proposed that Government should provide in all £2½ millions of capital, in which case the 'Institute' will be not unlike the Prussian Central Bank at Berlin.² But, whereas the latter lends only on approved security, the 'Institute' frequently lends on what most banks would not regard as security at all. Loans are made to consumers societies on stock which is constantly changing hands, to co-operative farms on crops and cattle which may be here to-day and gone to-morrow, and to Labour societies on the moral guarantee of their members. A good instance of the latter is a loan of £125,000³ to a co-operative Union (consorzio) of Labour societies in the first year of its existence. The Catholic bank works on the same principles which are adequately summed up in the remark of one of its officials that the basis of credit is 'need not security.' The remark throws a flood of light upon the rapid development of co-operation in Italy since the war.⁴

It must not of course be supposed that all loans are made on security so slender as that described. At the same time a considerable proportion seemed to rest upon what was little better

(b) Miscellaneous activities.

than a moral guarantee. In a good society no security could be better, but, on the other hand, no security is more difficult to judge. Consequently both the 'National Institute' and the Catholic bank are obliged to employ a touring staff to inspect and, if necessary, audit their client societies. Engineers and agricultural experts are also maintained to assist and report on Labour societies. Training classes are held for co-operators, and the Catholic bank also does propaganda; all of which is very far removed from the practice of the German central banks which, as we have seen, leave all control to the audit Union. In Italy the Unions are mostly of such recent growth that complete dependence cannot be placed upon them. Inspection and control are therefore duplicated, adding to the tangle of conflicting method and organisation prevailing in Italy.

¹ Viz., 29 million lire.

² The 'Institute' has now been reconstituted with 15 Directors consisting of 5 Government officials, 5 co-operators and 5 representatives of the banking institutions that have contributed to the capital of the Bank. The Government officials are appointed by the Ministries of Labour, Industry and Agriculture, and by the Treasury. In the Directorate the three forces of Government, Co-operation and Capital are all equally represented, and none will be able to dominate the others. As however Government is to subscribe the bulk of the capital, it will have the right of nominating the president and the two vice-presidents, and the appointment of the Director-General will also be subject to its approval. In countries where the apex bank has to be financed by Government the new constitution has much to recommend it. *La Co-operazione Italiana*, 23rd September 1921.

³ 10 million lire.

⁴ In 1919 the Institute financed, directly or indirectly, 5,370 co-operative societies, including 3,621 consumers' societies and 1,227 societies of Production and Labour.

If the question of a State bank for India were to be decided by the example of Italy, the answer would be unhesitatingly in the negative. Before the 'National Institute' was founded Government gave little assistance to Co-operation. Now it has become the one financial source upon which every branch of the movement, except the People's banks and the rural credit societies, has learnt to depend. With its 25 branches and its large supplies of Government money, it promised to give Co-operation in Italy the financial canal system it lacked. Hundreds of new societies sprang up, so to speak, all along its canal banks and ploughed up their land in expectation of an almost limitless supply of financial assistance. And now, owing to a half empty public exchequer, the canal has suddenly run dry. The danger of financial dependence upon Government, which has already been noted in the case of Germany, could hardly find a more striking illustration. At an important conference of Socialist co-operative societies held at Milan last January (1921) to consider the situation, it was stated that Government had declared its inability to act any longer as banker to the co-operative movement. By one delegate this change of policy was characterised as 'a direct challenge to Labour.' Another speaker demanded a law compelling savings banks to invest part of their deposits in financing co-operative Labour societies. A third claimed financial assistance from Government not as a privilege, but as a right. It was finally decided, firstly, that Government should again be approached, secondly, that at the same time the Socialist party in Parliament should be asked to apply political pressure, and thirdly, that the possibility of founding a bank for Co-operation and Labour should be examined. Something of course must be allowed for the natural warmth of the Southern temperament, but the conference illustrates two important points. In the first place it shows that indiscriminate State help is demoralising, and secondly, that the only alternative to it is self-help. If the suggested bank for Co-operation and Labour is founded, a step will have been taken in the right direction.

50. Under the bracing influence of Mr. Henry Wolff's teaching it had become an accepted principle in India that State aid by loan or grant should be eschewed. Recently, however, there have been signs of a change of attitude. It is partly

State Aid.

(a) Italy and France.

reaction from too great insistence on a principle which cannot be accepted without reservation; partly the missionary zeal of enthusiasts impatient to spread the gospel of Co-operation, if necessary with the help of charity; and partly the influence of France and Italy which have made lavish use of public money, the one to support, if not to protect, its key industry of agriculture, and the other to apply a sedative to the agricultural and industrial ferment caused by the war. There can be no question that Italy is a warning rather than an example. The conference just described shows the bad effects of spoon-feeding. Societies have multiplied so fast that Italians themselves are nervous. Even the Director-General of the National Institute recently had to warn his country men that they were heading straight towards State Co-operation; and he begged them to give up the madness of believing that real Co-operation could be spread simply by Government loan. 'I think with grief' he says 'of all that Co-operation . . . made without a half penny of capital . . . which expects to achieve everything on endless credit. I behold too with terror the swarm of co-operative stores which for 1,000 lire of capital expect 100,000 on loan, and which at the first shock must melt away, having neither discipline nor principle and whose sole object is a little more sugar, and a little more macaroni in spite of the cheap food coupons.' The example of France is hardly more encouraging. In a recent report we are told that the 'rural credit societies have no independent life of their own' and that 'the credit movement has done little or nothing to encourage those moral qualities . . . which have been stimulated by the Raiffeisen method in Germany,' and even consumers societies are said to have been given loans that they could probably have done without.²

¹ Last year thanks to Government subsidy bread was being sold far below cost price.

The passage quoted is taken from Arturo Campini's *La Guida Del Co-operatore*, page 19. It is significant that even the leading Socialist co-operative organ in announcing the new constitution of the National Institute described above admits that 'this form of State or semi-State Co-operation is not in accordance with the principles of Co-operation, which in the most progressive countries considers itself obliged to provide for its own needs by the savings and the sacrifices of its members.—*La Co-operazione Italiana*, 23rd September 1921.

² Rothfeld. *Impressions of the Co-operative Movement in France and Italy*, pages 15, 25 and 35.

In Ireland the only societies that have received State assistance, viz., loans at a low rate of interest, are the credit societies, and these are the only societies that are languishing. There are doubtless several reasons for this, but one of them is that thanks to these Government loans their growth at one time was too rapid.—See *Economic Journal*, volume XXVII page 361.

The case of pre-war Russia may also be cited. "The Russian Credit Co-operation" we read "is almost entirely the foster child of the Russian Government. . . . The peasant do not take much interest in these associations, which are only regarded as a means of obtaining a loan."—Bubnoff.—*The Co-operative Movement in Russia*, pages 51 and 53.

After this it is interesting, if not refreshing, to turn to the experience of Germany. All German authorities are agreed that self-help is the very essence of the movement, and the school of thought represented by the Raiffeisen Federation believes this with such conviction that it will allow no compromise at all. The other school, represented in agricultural Co-operation by the Imperial Federation, while accepting the Raiffeisen principle in theory, modifies it in practice. Its whole banking system pivots on a State bank at Berlin, and most of its Unions before the war accepted assistance from Government. New types of co-operative effort, too, have frequently been launched with the help of Government loan or grant. The granaries of Saxony, Pomerania and Bavaria are a good instance of this.¹ In Bavaria this form of assistance has been carried further than in any other part of Germany. Not only its granaries but its dairies and electricity societies, and the organisation of land credit owe much to State aid.

It is impossible not to admire the austere attitude adopted by the Raiffeisen Federation. It represents an ideal which we cannot bear too closely in mind, however unattainable for the moment in practice. It is also impossible to endorse without reservation the former policy of the Imperial Federation. We have seen that the Federation itself is less inclined than it was, before the war, to depend upon a State bank. Moreover, it is well known that a large amount of public money was wasted on granaries that ultimately failed. Further, recent experience has shown that great progress can be made even when State aid is no longer given. In two years (1919-20) 10,000² societies have been started. In one field State aid is still freely given. New house-building societies are being heavily subsidised and the result, though on a smaller scale, is precisely the same as in Italy.³ Societies are springing up like mushrooms. Many have no chance of success and all are started in a hurry. Lavish public grants in fact are a mistake. They produce the same effect that largesse produces upon a crowd.

In Germany Co-operation has now attained its majority and no longer needs support. In India it is still in its minority. Official control is therefore a necessity, and the country is so vast and its population relatively so poor, that large assistance is required for organisation and development. Moreover, new forms of co-operative effort are

¹ The Prussian Government allotted £250,000 in 1896 and 1897 to the building of 33 granaries.

² The net increase is much less owing to liquidations and loss of territory, see Introduction, paragraph 2, foot-note.

³ See paragraph 120.

being tried, and experiments requiring substantial capital have to be made. In the kindred field of agriculture experimental farms are maintained at Government expense. In Co-operation experiments can only be made with living societies. If in the one case public expenditure is justified, it is equally justifiable in the other. Co-operative granaries, land mortgage banks, house building and electricity societies are cases in point. But I venture tentatively to lay down three conditions of financial assistance :—

- (1) A reasonable rate should be charged for loans, otherwise the experiment will not be fair. Cheap loans, too, are apt to be wasted.
- (2) To mitigate any pauperising effect, help should if possible be given through a central bank rather than to a primary society direct.
- (3) Only experiments should be assisted, and once the experimental stage is passed no further help should be given.

Finally, it may be said that the more assistance Government gives to organisation and development, the less it should give to the purely business side of the movement. In a country like India the principle of self-help cannot be too jealously guarded.¹

An aspect of State aid that cannot be entirely ignored is the danger of political 'log-rolling.' We have seen how it was decided at the Socialist Conference in Milan to bring political pressure to bear upon Government through the Socialist party in Parliament. Co-operation in Europe is more and more being drawn into the whirlpool of politics. This dangerous tendency has already been discussed.² Meanwhile it is sufficient to say that when Co-operation and politics are allied, State aid may only too easily become a lever of party politics. India has, I trust, nothing to fear from this at present, but forewarned is forearmed.

(d) Danger of Connection with Politics.

¹ It is worth noting that in Denmark, where agricultural Co-operation has probably been carried to a higher pitch than in any other country except Germany, hardly any State aid has been given.

² Introduction, paragraph 11.

CHAPTER IV.—Supply and Sale Societies in Germany.¹

51. It is now a truism of rural economics that for the *small* holder Co-operation is a necessity. Without it he has to buy all he needs for his industry at retail prices and sell all he produces at wholesale. On such lines no modern industry could prosper for a day, and agriculture is no exception. This Germany began to discover 40 years ago, for she is only less a country of small proprietors than the Punjab. 48 per cent. of her holdings are less than 50 acres and in many large tracts the percentage is much higher. This explains why the co-operative supply of agricultural requirements is so widely developed. In 1914 the value of the goods supplied through the agricultural wholesale societies of the Imperial Federation alone amounted to over £10,000,000. If, at a moderate estimate, we assume a 10 per cent. saving due to co-operative organisation, the benefit to agriculture on this single account amounts to £1,000,000. Since the war, owing to the phenomenal rise in prices, 'supply and sale' societies, as they are called, have multiplied in hundreds. 588 were started last year, and there are now (April 1921) over 4,000 societies. In addition 80 to 90 per cent. of nearly 19,000 rural credit societies do 'supply.'² The importance of the subject is therefore evident.

52. The Supply and Sale Society may have either limited or unlimited liability. The former is increasingly adopted, but 40 per cent. still have the latter, and every month sees a few more added to their number. There can be little doubt, though, that for a trading society limited liability is better, and it is now universally recommended. In size the Supply Society tends to be a little larger than the village bank. Figures for over 2,000 societies in 1918 gave an average of 114 members, and the same figures showed that 75 per cent. of the working capital was borrowed. The principal articles supplied are manures, feeding stuffs and coal. Seed and machines are also important heads. Since the war, textiles and household necessities, such as shoes, have come to be included, but groceries and provisions are still generally left to the local shopkeeper. Unlike Italy and Ireland, business is mainly wholesale and the co-operative village shop is rare. For political purposes it was not desired to oust the

¹ A supply society is a society for the supply to its members of their *professional* requirements, i.e., all articles required for the carrying on of their industry or trade. It must be distinguished from a store whose main object is the supply of household requirements, e.g., food and clothes.

² See Chapter I, paragraph 9.

retail trader, whose support was needed by the party to which the bulk of the peasant proprietors belonged ; nor was it necessary, as competition has prevented the exploitation of the villager so common in India. On the whole, the system followed is not unlike ours in the Punjab, though the business done is infinitely greater. A main reason for the latter is that German agriculture is far more advanced. There is nothing that illustrates this better than manures. In 1919 nearly $1\frac{3}{4}$ million tons were supplied through co-operative wholesale societies, whereas in the Punjab I doubt if a single ton was bought.

53. The methods of supply societies are probably much the same everywhere. Goods are supplied at the lowest possible price and no rebate is given. Before the war, when prices were

lower, the contrary practice of market rate and rebate was often followed, and a few of the larger societies follow it still, charging, however, something less than the market rate. But with most societies the main object is to reduce the overwhelming rise in price. Credit is freely given. Audit Unions oppose it, but in agricultural supply it is inevitable, and all that can be done is to restrict it. In Bavaria it is commonly allowed till the end of the year, but after a short period of grace interest is charged. Prices are slightly reduced for cash. Before the war cash payments were rare, but now that money is more abundant and demand exceeds supply, it is easier for societies to insist upon cash. The Imperial Federation opposes credit for more than 6 months, and considers that for a longer period a loan should be obtained from the local village bank.

Another point in which some indulgence is unavoidable is in regard to non-members. In principle dealings with non-members are not allowed, but it is a principle subject to exception. In one society visited 25 per cent. of the whole business was done with them. But this is unusual, and, as a rule, only surplus stock is sold. A tax, which is imposed upon societies dealing habitually with non-members, acts as a useful check.

Various methods of ordering goods are followed. In two societies I inspected in the vineyard country of the Moselle an orderly or *chaprassi* goes round to collect orders, and when the goods arrive he is sent out again to proclaim the fact with voice and bell. Members then flock to the local station, and goods are cleared at once and paid for when their wine is sold. This is certainly the best system for the small society. In some societies indents are only taken when

prices are exceptionally high. In others, and this is probably the commonest practice, goods are ordered at the discretion of the committee. In one society's store I saw unsold a large consignment of nicotine, which had been ordered for treating the vines against fungus growth. The president admitted a little ruefully that it had been ordered by the committee on their own responsibility, and that members refused to take it as it was too dear. The result was a loss of £125¹ to the society. It might be supposed that this is a warning to order only upon indent. In a neighbouring Society, however, I found precisely the same thing had happened, only in this case the nicotine had been ordered upon indent. In spite of this members refused to take it. The president admitted that technically they could be held to their indents, 'but' he added, 'it will only make bad blood and there has been war enough without bringing it into our society.' In yet a third society I came across more unsold nicotine. It was evident that the neighbourhood had had an experience similar to ours over 'jowar' seed in 1919, which shows that even the smaller problems of Co-operation do not differ much East and West.

54. An actual society will now be described. I select a recent one as it shows the latest type. Ten

Sechtem Supply and Sale
Society.

miles from Bonn is the village of Sechtem with 1,350 inhabitants. Most of them own an acre or two of land which is sufficient to support them and their families, as they work and produce vegetables without ceasing. The local landlord is like a trout amongst the minnows, and with his motor tractor cultivates his 600 acres on the most approved principles, a good example of what the large proprietor can do for the small when the two live in amity side by side. In 1919, when prices soared, he formed a supply and sale society and became its first president. Before the year was out two-thirds of the parish had joined, and now there are 160 members. Each takes a single share of 50 marks² on which there is a liability of 500. On the strength of this the local central bank has given the society a cash credit account of £500. Goods are supplied at cost plus 2 to 5 per cent. for expenses, and so good a start was made that for the first half year the turnover was nearly £1,000. Seed and manures, shoes, stockings and tobacco, candles, margarine and herrings are the chief things supplied. 'Supply' and distribution are combined; and it looks as if the society would end in a shop. As it is, the groceries and smaller articles are kept

¹ 25,000 marks.

² Now worth about 5 shillings.

in a room rented in a local shop and, by a curious arrangement which appears to answer, the shopkeeper sells the goods and is paid 2 per cent. on the turnover. As is so often the case in the Punjab, the heavier goods are stored in the president's house. When the demand is uncertain, goods are ordered on members' indent, no price however being named; otherwise the committee decides. Members are allowed credit, but after a month's grace 3 per cent. has to be paid. In larger societies credit limits are fixed, but in this one, as every member is well known to the committee, each case is decided on its merits. Sureties are only taken in doubtful cases.

In addition to 'supply' members' fruit and vegetables are bought and sold. 24 different kinds have been handled. For produce of poor quality a little less than the fixed price is paid. Otherwise there is no attempt at classification. A special man is employed for sale. The first had to be dismissed for dealing with members on his own account. The latter are not obliged to sell through the society. Sale has been greatly facilitated by a large contract for vegetables with a municipality 100 miles away. £30 of the profit was returned to members in proportion to produce delivered, and £5 was subscribed to a local school. On one occasion the society to obtain manure had to supply potatoes in exchange. So do hunger and necessity lead us back to barter. The president says that the society has lowered cost by 20 per cent. and given members 10 per cent. more for their produce. The local shopkeepers, too, can no longer charge as they please. An irrelevant but interesting point is that the president has recently lost 23 head of cattle from foot and mouth disease, which shows that India has no monopoly of this kind of misfortune. But there is one great difference. The president's cattle were all insured.

55. Before we leave the subject of supply societies a few points taken from the model by-laws of the Bonn Audit Union are worth noting—

Miscellaneous Points.

- (a) Goods may not be transferred. This is a useful rule as members have sometimes been tempted in the Punjab, and probably in other parts of India, to dispose of their goods to non-members at a higher price.
- (b) Members whose business competes with that of the society cannot be on the committee.
- (c) All profit must be carried to reserve till the latter amounts to £100.¹

¹ 20,000 marks.

- (d) When a society has a warehouse or other premises requiring an outlay of capital, withdrawal from it is subject to 2 years' notice, otherwise to 6 months.
- (e) All credit accounts must be secured. We have seen that at Sechtem security was only taken in doubtful cases.

A further point is the importance of regular stock-taking. This is invariably done at the end of the year by the committee and the board of supervision acting together. Audit Unions would like to see it done twice a year, but few societies are equal to this. A further check is made by the auditor, but unless there is something obviously wrong, this is more a matter of accounts than of actual check and weighing of goods. The two committees on the other hand are supposed to count and weigh everything. In India this very necessary precaution should never be neglected.

56. In the chapter on federations it was said that, when a society is formed, it is affiliated to a local Audit Union, a Central Bank and an Agricultural Wholesale Society. In India the same procedure is followed in regard to Union and Central Bank, but the 'Wholesale' is unfortunately lacking. This is the cardinal difference between the two countries in the matter of sale and supply. At the beginning of 1920 Germany had 30¹ agricultural wholesale societies and in addition, as we have seen, two central banks with wholesale departments.² The importance of this difference is obvious. It means that in Germany the inexperienced village society is not dependent upon the uncertain knowledge and experience of its president, manager or secretary for either purchase or sale. It means, too, that it secures the full advantage of the most expert and wholesale buying. In trade even more than in banking large scale business pays. In India supply and sale must remain comparatively insignificant till the 'Wholesale' is established. It is therefore matter for regret that the first experiment recently made at Bombay proved a failure. In further experiments it should be remembered that a proper business equipment is essential. Co-operative banks may achieve success without it, as in India at least they have only to reckon with the isolated moneylender. A 'Wholesale' is different. It has to compete on equal terms, and at first with far less experience, against all the resources of the highly organised middleman. The success of the German societies is largely due to the fact that no expense or effort has been spared in their equipment.

¹2: affiliated to the Imperial Federation and 8 to the Raiffeisen.

²Paragraph 38.

This is particularly evident in their managers, who are all trained men of business and of a type that may, I fear, be difficult at first to find in India.

57. For finance a wholesale society depends mainly upon the local central bank, which allows it a cash credit account up to a definite limit, the amount of which is based upon the value of the liability undertaken by its member societies. If this is not sufficient, good security must be provided. A well run society does its best to reduce borrowing by giving as little credit as possible. The simplest method, where a client society cannot pay cash, is to have an arrangement with the local central bank, by which the society's cash credit account can be debited with bills incurred, up to the limit of the account. But if a society has no account and its liability is unlimited, the total value of its members' property is ascertained, and credit is allowed up to 10 or 15 per cent. of the amount. This at least is the method followed by the 'Wholesale' at Coblenz.

58. As further experiments must sooner or later be made in India, some account of this 'Wholesale' may be given. It was formed in 1919 by an amalgamation of the three 'Wholesales' in the Rhine Province, and is a good example of the tendency of the Imperial and Raiffeisen organisations to draw closer together, as two of the 'Wholesales' belonged to the former and the third to the latter. The new society now operates throughout the Rhineland, a province with about 7 million inhabitants. Its paid-up capital of £5,000¹ is divided into 1,000 £5 shares which carry no further liability. Dividend is limited to 5 per cent. Any further surplus is distributed by way of rebate which the first year amounted to half per cent. This cannot be large as an average of only 3 per cent. is added to cost price. So far as possible, societies are supplied with goods direct from the source. Articles which cannot be ordered in sufficient bulk are stored in local warehouses of which there are 15 in different parts of the province. Goods in constant demand are kept in stock, otherwise the indent system is generally followed. Societies are not obliged to order their goods through the Wholesale. The manager thought this a mistake, as there was nothing to prevent societies running up accounts elsewhere, a practice likely to prove embarrassing where credit has to be given and a limit fixed. The extent to which credit is allowed has already been described. Six per cent. is charged on accounts not cleared within a fortnight.

¹One million marks.

In 1919 goods to the value of £500,000 were supplied, but 5 to 10 per cent. of this was on account of non-members, who are allowed to deal with the local warehouse though at a higher rate. Produce, notably potatoes, is sold for members of affiliated societies. This is done if necessary, in co-operation with other provincial 'Wholesales'. The produce to be sold is concentrated in the local warehouse, and sale is effected at headquarters. The executive committee of the society consists of the managers of its four different departments. There is the usual board of supervision, and once a year a general meeting is held in conjunction with the central bank. The president of the society is also president of the local Raiffeisen Union and manager of the central bank. In this way the triple organisation of banking, trading and control is welded into a single whole.

59. Whereas the, Raiffeisen wholesale societies have combined to form an apex 'Wholesale' at Berlin, the other 'Wholesales' have only an Information Bureau. Though the latter has no funds of its own, it makes occasional purchases when unusually good bargains are to be had. This can be done as firms usually allow 2 or 3 weeks' credit, and the goods are disposed of at once. For obvious reasons it is not an example to be followed.

60. I come now to co-operative sale. It is proverbially the most difficult form of agricultural Co-operation, and only where organisation is good and co-operative spirit strong can it be safely attempted. This is the experience of Germany as of every other country. Before the war co-operative sale was developing fast. In 1914 the sale of grain and potatoes ran to six or seven million pounds.¹ Since the war State control has had a throttling effect, as co-operator and non-co-operator have had to be treated alike. Even so, in 1919, 1,400,000 tons of grain and potatoes were sold. A more serious difficulty is that sale is now easy, demand far exceeding supply. Before the war markets were overstocked and Co-operation was almost a necessity. Co-operation is rooted in necessity, and when the latter no longer exists interest and effort slacken. In a village visited near the Rhine the wives of the local market gardeners, like the Arain women of Jullundur, used to go daily 20 miles to Cologne and had to stop there the night in order to be up with the dawn for the morning's market. A society was started, and they could all stay at home. Now, however, that

¹The figure for the Imperial Federation Wholesales was alone nearly £5,000,000.

vegetables are scarce, the purchaser comes humbly to the village instead of staying superciliously in the town. The change is excellent for the cultivator, but bad for the society which is going downhill.

A clear need is therefore essential, but it is not sufficient.

(b) Importance of good management.

There must be good management as well. The importance of this, already stressed in connection with supply, cannot be exaggerated. An American authority, writing of co-operative sale, states that nothing has done so much harm as 'low-salaried, inexperienced and incompetent managers.'¹ In Germany, too, good managers have been a difficulty. Many granary societies have come to grief because the inexperienced local man was preferred to the trained man of business.² And where good men have been appointed, they have too often been underpaid and consequently tempted to go elsewhere. Germany being one of the most honest of countries dishonesty is rare, though as we have seen³ not unknown.

A further point to be emphasised is loyalty. All are agreed that it is vital to success, but authorities differ as to how it can be secured.

(c) Compulsory dealing with the Society.

Some would have a by-law obliging members under penalty to deal exclusively with the society. Others oppose this as inimical to harmony and goodwill, nor do they believe it could be enforced. A third school would have the by-law as a reminder of obligation and as a weapon to be used in the last resort. The highest authorities are on the whole in favour of compulsion. But most of the men on the spot are agreed that, by-law or no by-law, no power on earth can force the peasant against his will. Many societies have a by-law but, outside the vine-growers societies, I did not meet a single manager or president who had attempted to enforce it. Good business methods, fair dealing and attractive prices are, it is said, the only passport to a member's custom. In Bavaria, where the co-operative sale of grain is carried further than in any other part of Germany, compulsion is now considered impossible. Creameries are a partial exception. The Raiffeisen societies apply compulsion, but not the others.

In considering compulsion different kinds of societies must be distinguished. For the supply society it is unnecessary. For the ordinary sale society it is highly desirable but difficult to enforce. For the creamery, and any other form of producer's society requiring an expensive plant, it seems to me a necessity, otherwise a disloyal minority can place the whole society in

¹ Powell, *Co-operation in Agriculture*, page 7.

² See paragraph 67 (a).

³ Paragraph 54.

jeopardy and heavy loss may be incurred. This indeed is what has recently happened to many creameries. Milk has been so scarce since the war that almost any price could be got for it *sub rosa*. Large quantities have therefore been withheld from the creameries which could only offer the rate fixed by Government.

61. As stated in the introduction¹ the most important problem confronting sale societies at present is the question of sale to the consumer direct. The rift between town and country, which has already been noted,² makes this almost a necessity, and it is indeed the only way to prevent both producer and middleman from exploiting the community. We have long been familiar with the middleman and his profiteering ways, but only since the war have we realised that the producer is no better. It is the combination of the one with the other that has bled the consumer white. In Germany things went so far that the town threatened to invade the country, and in one or two instances I believe the threat was carried out. It is therefore satisfactory to learn that in many places, notably in Thuringia, a beginning with direct sale has been made. In the Rhineland, too, wine and butter have occasionally been sold, and the exchange of potatoes for manure in Sechtem will be remembered. From Bavaria comes a notable instance. A granary society on the Danube recently sold 50 wagon loads of potatoes to a number of consumers' societies in a mining district 150 miles away. Representatives of both sides met. It was explained that the year before the miners did not get nearly enough potatoes (a serious thing in a country that could only get meat once a week) and that it had affected their output. The price was accordingly fixed at 20 per cent. below the current rate. But cases like this are rare and, as someone expressed it, sale to the consumer direct is still 'in the Kindergarten school.' Its importance though is realized and both federations are bent upon developing it. The difficulty is the absence of organisation. The middleman is often spoken of by co-operators as a parasite upon society. Actually he performs a necessary and often a complicated function. His elimination is undoubtedly desirable, but it is only possible if an equally efficient organisation can be put in his place. Co-operative 'Wholesales' exist on either side, but a bridge is needed to connect them. The joint committee³ of the four urban and agricultural feder.

¹ Paragraph 12.

² Paragraph 32. In France too there are signs of a similar rift (see Conacher and Scott's Report on Agriculture Credit and Organisation in France, 1920, page 19). The cleavage is indeed a striking effect of the war through a large part of Europe. It is most marked in Russia where it has been sharply accentuated by the revolution—*Report of the Committee to collect information in Russia*, 1921, page 110.

³ See paragraph 26.

ations is a preliminary step in this direction, but a single plank is not enough to span the gulf.

Though in Italy even less has been done than in Germany, circumstances are in one respect more favourable, for whereas in Germany producer and consumer belong to different federations, in Italy they are ultimately united.¹ Italy's great disadvantage is her lack of organisation. This, however, she is endeavouring to create, and if she succeeds she may yet be the first to solve the problem, meanwhile her co-operative farms with their ever increasing yield give her an opportunity denied to most.

In Ireland, as in Germany, urban and agricultural Co-operation are divided. Urban development is in the hands of the Co-operative Union (Manchester), and rural in those of the Irish Agricultural Organisation Society. These two bodies, however, also as in Germany, are united by a joint board on which the Irish Agricultural Wholesale Society is represented. But unlike Germany the latter acts as 'wholesale' for urban and agricultural societies alike, though this means little at present as the urban movement is still in its infancy.² The hope, however, is cherished that Ireland's special contribution to Co-operation may be to show how producer and consumer may be reconciled. For Co-operation it is the master problem of the future.

62. The most important and original form of sale society in Germany is the co-operative granary. This is dealt with in the next chapter. Milk and vine-growers societies are also separately treated.³ The only type that remains of special interest to India is the market-gardeners society. There are about 100 of these. The one I propose to describe is 20 years old and has 62 members, all residents of the village and its immediate neighbourhood. Holdings run from 1 to 100 acres with an average of five. Many of the members are artisans who cultivate small plots in their leisure. As in Sechtem, no one may hold more than one share, but in this case all profit goes to reserve or is spent on objects of general advantage. In 1917 £20 was applied to the purchase of fruit trees which were distributed amongst the members.

When the society was started, as supply exceeded demand, it was no easy matter for members to market their produce. That gave Co-operation its chance. The position is now reversed, and the society is like a bundle of faggots held together

¹ See paragraph 35.

² Smith Gordon and O'Brien, *Co-operation in Many Lands*, page 39.

³ Chapter 6.

by thread instead of twine. The keenness of the start is a thing of the past. The worst produce is invariably brought for sale, while the best is often withheld. Some members even sell entirely for themselves. The only remedy applied is to refuse them manure which is scarce. The manager would like a by-law compelling all members to sell through the society, but people, he says, are demoralised by the war, and now no one will have it. It is the old story of Co-operation and necessity. The necessity has vanished and no one wants any longer to co-operate. A sale society is between the devil and the deep sea. If supply exceeds demand, members will be loyal, but marketing will be difficult. If it is the other way about, marketing will be easy but members will not be loyal. Before the war, when markets were overstocked, the rhubarb, gooseberries and beans, in which the society chiefly deals, had often to be sent as far afield as Berlin, nearly 400 miles away. As in India many were the difficulties of transport. A typical instance is the case of a wagon load of fruit and vegetables valued at £140 which was despatched 350 miles to Munich. The purchaser refused to take delivery as it arrived two days late and was, he said, not up to weight. The consignment had to be auctioned and fetched only £24. Now that sale is easy, delivery is only given against payment but before the war the purchaser had to be humoured and payment followed delivery. On one occasion a wagon load was ordered from Berlin on finely stamped notepaper. The man proved to be a swindler and £200 was lost.

The manager said it required three full years' experience to run a society of this kind. The committee, of which he is not a member, meets once a week to fix prices, but apparently meetings begin and end in talk, and no one is any the wiser when he goes away than when he arrived. Members are paid for their produce once a week, but always a week late. On October 15th, for instance, they will be paid for the first week of the month. This allows the produce to be sold and the actual price (less expenses) to be paid. It also supplies the manager with cash in hand. The only grading attempted is with rhubarb of which there are two varieties. Systematic grading is beyond the capacity of the ordinary village society. Bad stuff can be refused, but little else can be done. Though 'non-members' produce is sold, the sale turnover for 1919 was less than £300,¹ which shows the effect of easy markets upon the society. The society is in fact a good illustration of the difficulties of co-operative sale. In the next chapter we shall see more of this.

¹60,000 marks.

CHAPTER V.—Sale Societies—*continued*.

GRANARIES.

63. Of the many different kinds of sale society in Germany there is none so remarkable as the co-operative granary ; and, with the exception of the village bank, there is no form of Co-operation that has a more special interest for the Punjab, where the marketing of grain is as important as it is primitive. An authoritative account of granary societies is to be found in Mr. Cahill's report on Agricultural Co-operation in Germany. I shall therefore do no more than give my own personal experience which was mainly confined to Bavaria. Nowhere else is the movement so strong or the small society so common, and it is from the latter that India has most to learn, the larger organisations being at present beyond her reach. I also visited the province of Saxony, but granaries have not done very well there. Broadly it may be said that they have only flourished in Southern Germany. The reason for this is that Southern Germany is not only a stronghold of the small proprietor, who has more to gain from co-operative sale than the large landowner, but it produces more than it consumes. The Rhine province is also a home of the small proprietor, but, as it consumes more than it produces, sale is easy and granary societies are not required. For the latter to succeed they must be established in an exporting area. This is fundamental.

64. As everybody knows, the granary society is one which buys and sells grain and is equipped with facilities for storage. It usually has an elevator, and in some cases a silo or corn cave, and it invariably undertakes the supply of agricultural requirements. Experts are emphatic that the sale of grain should always be combined with agricultural supply. The former undertaken alone involves too much risk. Competition is keen and the margin of profit small. Occasional losses are almost inevitable. Without some other form of business a society may be brought to an early grave. Thus the first three societies to be started in the province of Saxony were in great difficulties till they took up supply. Now no society thinks of doing the one without the other.

Importance of Combining
Supply with the Sale of
Grain.

65. There are about 80 or 90 independent granary societies in Germany. The majority are to be found in Bavaria and Baden. They vary much in organisation and character. Some have only individuals as members, others only societies; others again have both. Some societies, too, like those in the province of Saxony, embrace a whole district, while those in Bavaria have a radius of only 10 or 15 miles. Not infrequently, especially in Bavaria, an ordinary co-operative village bank will build an elevator and add the sale of grain to the advance of loans. Finally there are, as in Munich, Nuremberg and Halle, central banks or agricultural wholesale societies which control and operate a number of up-to-date granaries distributed over wide areas. At present the future would seem to lie with these.

66. The reasons for this are the reasons which have led so many industrial and commercial enterprises since the war to combine their forces. The financial resources of a large organisation are far greater than those of a small society, and now that buildings and machinery are almost prohibitively dear, only the large central societies are in a position to expand. The latter, too, have the great advantage of being able to work with the economy and efficiency of management that modern conditions demand. Co-operatively, however, there is room for regret, for it is in the smaller societies with their strong local ties that the co-operative spirit can be most richly developed. Thus, as so often happens, material and moral gain are opposed. This is realised at Munich, and it is accordingly the policy of the Bavarian Agricultural Audit Union, wherever possible, to maintain and develop the local society, and only to replace it with the more efficient organisation of the central bank when it has no longer any prospect of success.

67. It must, however, be confessed that the tendency towards centralisation is increasingly difficult to resist. In the province of Saxony it is not proposed to start any more¹ local societies. In Bavaria the central banks at Nuremberg² and Munich have spread a network of 142 granaries over the whole State. Though there are still from 50 to 100 village banks with granaries, barely 30 independent granary

¹ In Saxony the contrast is not between the small local society and the large central organisation, but between the latter and the large local society, which is apt, as it develops, to assert its independence of Union authority. It is now proposed that the Agricultural Wholesales Society at Halle, the capital of Saxony, should have a branch granary in every district of the province. At present there are only 6 local granary societies, 3 of which are already operated by the Agricultural Wholesale Society.

² Three out of four of the granary societies affiliated to the Nuremberg Union are managed by the central bank.

societies remain. Ten or twenty years ago, fostered largely with State grants and loans, these societies sprang up in many different parts of Bavaria, but only in the Upper Palatinate is the movement still vigorously independent. Almost in spite of themselves the central banks have been forced to swallow up one local society after another. The danger is that appetite may grow with eating.

The case of Lower Franconia is typical. Of the dozen societies started there only three or four survive.
 (a) Lower Franconia. The others have been compelled by circumstances either to sell or to lease their buildings to the central bank at Munich. The chief cause of their undoing was the difficulty of getting a good manager. Too often, the local man, who was appointed because everyone knew and trusted him, lacked the experience and capacity indispensable to an undertaking requiring the greatest vigilance and care. A good instance is the case of a society which collapsed because it was started and managed by a priest who was an excellent man but entirely ignorant of trade.

On the other hand in the Upper Palatinate there have been only five casualties, and 25 to 30 granaries remain.
 (b) Upper Palatinate. The reasons for their better success are instructive. In the first place they are small concerns and therefore comparatively easy to manage. The people, too, are cautious and more than usually capable. Their seed for instance is widely exported. Supply has been extensively developed and, being more lucrative than the sale of grain, has provided useful ballast. Moreover the Upper Palatinate, which marches with old Bohemia, is far away from the large grain markets of Munich, Nuremberg and Ulm. Co-operation was accordingly a necessity to protect the producer from the local dealer, who in the old days had it all his own way, the more so as debt often placed the cultivator entirely at his mercy. This point is of special interest, as the first ¹ granary society to be founded in the Punjab, if not in India, owed its origin to precisely the same conditions, which is a good example of the way agricultural problems repeat themselves in different parts of the world. A final point in favour of the Upper Palatinate is the absence of large towns. For a society purchase is often as difficult as sale. There is therefore a certain risk in the neighbourhood of a town which may compete with the society for the cultivator's custom. Even so strong an organisation as the central bank at Nuremberg finds that of its 25 granaries those in the heart of the country do best.

¹ At Shakargarh in the Gurdaspur District.

68. The financing of a co-operative granary would not have been an easy matter but for the generous assistance given by the Bavarian Government. Most societies received at the outset not only a loan at a low or nominal rate of interest, but also a free grant. Down to 1910, when the number of granaries stood at 156, it is calculated that these advances totalled about £60,000, of which £10,000 were free grants.¹ Nearly half the cost of the granaries built was defrayed in this way. The balance was met from shares, and with money borrowed from village and central banks.² The partial or total collapse of a large number of societies suggests that Government assistance was too lavishly given. Some help was undoubtedly necessary in the initial stages, but it should probably have stopped when the movement emerged from the experimental stage.

69. It will perhaps give a clearer idea of what a small granary society is like if I describe a characteristic society of the Upper Palatinate. Tirschenreuth Society. In the North-East of Bavaria, near the Bohemian frontier, is the unpretending, but well-built village of Tirschenreuth situated with its 800 inhabitants in an undulating country of meadow land and pine woods. In 1899, to free themselves from the bondage of the local dealers, eight small village banks of the neighbourhood joined together to found the granary society of Tirschenreuth. Three more banks have joined since, and now about 1,000 peasant proprietors are indirectly members of the society. The society's area, which is typical of Bavarian societies, is a radius of 10 miles round Tirschenreuth. Each member-society takes a single share of £25 and no more. Liability is unlimited. Recently there has been some thought of limiting it, but as a good deal of borrowed capital is still required, the present form is more convenient. It is claimed, too, that unlimited liability keeps alive a keener sense of responsibility and interest.

The year after it was founded the society built an elevator which, following invariable custom, stands on a siding leased from the railway. This is indispensable to allow direct loading into trucks. The elevator, which holds about 500 tons³ of grain, cost £1,350. To meet this heavy expenditure Government made a grant of £125 and advanced £700 at 1 per cent. The balance required was raised by loan from the member-societies and the central bank at Munich. The present financial position of the society is strong.

¹ Cahill, page 199.

² Ordinarily a village bank in Germany will only lend to a neighbouring society in which its own members are interested.

³ About 13,500 maunds.

All but £450 of the different loans has been repaid, and thanks to 50 per cent. of the profit always being carried to reserve the latter now amounts to £1,100.

All grain handled by the society is bought outright. Sale on commission does not appeal to the cultivator. Many societies tried it at first, but

(b) Purchase and Sale of Grain.

all have had to give it up as the cultivator likes to know exactly how he stands and prefers a fixed price to the uncertainties of a fluctuating market.¹ Some societies used to pay their members the full market price on the understanding that subsequent profit or loss should be shared. But since 1912, when there were heavy losses, the system has been abandoned, and now all societies buy unconditionally. At Tirschenreuth prices are fixed by the manager. It was originally done by the committee, but this was found unsatisfactory. In a neighbouring though smaller society the committee still do it. The margin of price between purchase and sale before the war was about 8 per cent. Now it is less, as sale is controlled by the State.² The staple crops are oats and rye. The former is grown for seed and is in wide demand. Members bring their grain to the granary themselves. It arrives in November and December, and in normal times would not be finally cleared till April or May, when the elevator is thoroughly disinfected. On arrival the grain is cleaned and graded. There are two or three different varieties. Bad grain is not rejected, but is paid for at a lower rate. The results of grading have been good. Higher prices have been secured and farming has improved. There are no dealings with the affiliated societies as such but only with their members, who, however, are not obliged to sell their grain through the society. The question whether compulsion can be applied in societies of this kind has already been discussed.³ The manager believes it to be impossible, and in this opinion he is supported by the experience of the whole of Bavaria. In the first year, in spite of much propaganda, not more than half the local grain came to the society. The following year the proportion rose to two-thirds, and eventually the four local dealers lost their entire trade and had to quit. There was the usual struggle first. The dealers tried to overbid the society, but the society, not seeking profit, could work on a finer margin of rates. Its grain, too, being graded was of a more even quality, and was soon the most popular in the market. Finally, sale was greatly facilitated by

¹ Cf. the MacLagan Committee Report which recommended commission sale in the case of sale societies, page 11.

² Under State control, which is due to the war, all grain has to be handed over to the local official agency at a fixed price.

³ Paragraph 60 (c).

the military authorities who used to take the whole available supply of fodder oats.

The society has the usual committee and board of supervision. Six members belong to the one and nine to the other. This allows every member-society to be represented on one or the other. Otherwise a smaller committee would admittedly be better. In the case of the latter, however, two members are sufficient for a quorum. Both bodies are honorary, but the members of the committee get a fee of 12 marks (about a rupee) for each sitting, as many have to come a considerable distance. General meetings are held once a year, but on special occasions, when a lecture or an address is to be given, 100 or more will attend. A sub-committee of two members, chosen one from the committee and the other from the board of supervision, is entrusted with the annual stocktaking and with an informal audit of the accounts which must be done without warning. The more formal audit is done by one of the Bavarian Union's officials every other year.

Thanks to good management the society has fared well. In 1914, the last normal year, it sold 4,200 tons of grain and supplied its members with 275 tons of manures and feeding stuffs. Its benefits have been considerable. It has secured for the cultivator a good price for his grain, prompt payment, a constant market and all the advantages of a well-equipped elevator within easy reach. It has led him to improve his cultivation and has enhanced the reputation of his seed. It has also assured him a steady supply of good manure at a fair price in place of unreliable manure at a high price.

70. The society at Tirschenreuth is fortunate in its manager who is both an agriculturist and a trained man of business. But this combination is rare, and it is usually a question which type should be chosen, the agriculturist who has no knowledge of trade or the trader who knows nothing of agriculture. For the corn trade the latter is safer, but for the business of supply, which deals largely with manures, it is better to have an agriculturist who can advise members on their purchases. On the whole, as the corn trade is the more difficult and risky of the two, opinion is agreed that, if a society cannot have two managers, or if the ideal combination in one man cannot be found, it is better, anyhow at the outset, to have a man who has some knowledge of trade. It is an advantage of the larger central organisations that they can usually afford to employ both together.

71. It is also a disputed point which is the best type of society for selling grain. In Bavaria a large number of village banks have granaries varying in capacity from 25 to 150 tons.¹

Best type of society.
(a) The Village Bank.

Their great advantage is that they can raise capital without difficulty; their disadvantage, that the committee and board of supervision are apt to confine themselves to banking and leave the difficult business of grain dealing entirely to the manager. This is a drawback which would be particularly serious in India. Village Banks should therefore not be encouraged to start granaries, though there is one in the Karnal district which has stored and sold its members' grain successfully for several years.

If village banks are to be excluded, independent granary societies must be established, and here again opinion is divided. Some prefer a society consisting entirely of individuals, others one like Tirschenreuth consisting entirely of village banks. The objection to the latter is that it interposes between producer and consumer an unnecessary agent, namely, the member-society which has to be given a share in a profit which is always small. On the other hand, it is admirably adapted for supply, as it facilitates dealings in bulk. Societies with only individuals as members also have their drawbacks. They are less cohesive, members joining one year and withdrawing another; they cannot raise capital so easily, as their security is less, and they are more egoistic in aim and spirit. Some societies compromise by admitting both individuals and societies.

72. The Society at Erding, one of the best I saw, was of this type. Founded in 1910 it has 44 members, of whom 14 are village banks containing 40 to 150 members each. Well over 1,000 proprietors, each with from 10 to 50 acres, are directly or indirectly members of the society. Unlike Tirschenreuth liability is limited to three times the value of the share. An elevator to hold 1,000² tons was built at a cost of £5,000. It stands on a railway siding which is the property of the society. The building has four storeys and in addition a large basement where artificial manures are stored. The walls are of cement, as are also the pillars and the floor of the basement. The rest of the building is of wood. The grain is carried to the top floor by electrically-driven machinery and distributed thence throughout the building wherever it is wanted. In 1914, 2,400 tons of grain were sold, and 3,000 tons of manure and fodder stuffs supplied.

Erding Society.

¹ About 700 to 4,100 maunds.

² About 27,000 maunds.

Wheat and barley used to be graded in three or four different varieties, but since the introduction of State control with its demand for quantity rather than quality this is no longer done. There used to be occasional disputes and at one time an arbitration committee was set up to decide them, but it proved too slow for the purpose. The manager now decides them himself. He also fixes prices. Half the grain handled belongs to non-members, but only members are entitled to the annual rebate which is about 2 per cent. Non-members are also supplied with manures, etc., at the same rates as members. Differentiation was tried, but was found to be more trouble than it was worth. There has never been any bother with weevil, for wheat and barley, the two chief products, were rarely kept for more than 3 or 4 weeks.

For the first ten years all profit was carried to reserve, an example which India would do well to follow, and even now only 20 per cent. of it can be distributed. There are no less than three reserve funds which form a triple barrier against loss. In addition there are special funds for pensions and gratuities, for the improvement of seed and for objects of common good. Finance is so well regulated that a large holding of war loan stock has been written down by 20 per cent.; and a recent loss of £500, due to the local stream suddenly rising and flooding the basement which was full of manures, has been met without serious inconvenience. Considering its short life the society has built up a remarkable business. For this both patience and effort were needed, and at first much propaganda. The manager told me that he had often had to spend three or four days a week touring the neighbourhood for this purpose.

73. The managers of the societies I saw impressed me with their general good sense and capacity. The importance of securing a good manager for a sale society has already been emphasised. In this case it cannot be exaggerated.

Important Points—
(a) The Manager.

Expert authority also laid great stress upon the advantage of maintaining a good average quality of grain. Co-operators are prone to think no grain too bad to be taken. In that case, if bad grain cannot be rejected—managers are extremely loath to do this—it should be scrupulously cleaned. It should also be remembered that once a society gains a good reputation for its produce, sale will be easy, especially to breweries and mills, whose custom it is particularly useful to obtain.

(b) Quality of grain.

A further difficulty lies in the fluctuations of a market necessarily dependent on world wide conditions. Thus in 1909 and 1912 foreign competition compelled large sales at reduced rates, involving many societies in substantial loss. Against this danger the only safeguards are a good manager and a strong reserve. The latter cannot be built up too fast.¹

74. Some account must now be given of the granaries of the central banks at Nuremberg and Munich. Their tendency to grow at the expense of the smaller societies has already been noted.² Both have highly specialised departments which deal only with grain, and with their 142³ granaries scattered all over Bavaria they command a strong position in the grain market. In 1919 the Bavarian Central Bank at Munich sold as much as 280,000 tons of grain.

75. To get an idea of its system I visited one of its larger granaries at Friedberg near Augsburg. The elevator is of the most modern type and was only completed in 1917. It cost £9,000 and holds 1,200⁴ tons of grain and is equipped with 16 silos, each of which can accommodate 50 tons. The advantage of a silo is that it is a protection against damp and enables the grain to be handled with the minimum of labour and maximum of despatch. A 1 cwt. bag can, for instance, be filled and weighed in a few seconds, both operations being performed by the same machine.

As usual the granary serves a radius of about 12 miles. Thirty agents, most of them members of local societies, are employed to purchase grain. Each agent has five or six villages to work in, and is supervised by the manager who tours for the purpose. He must be a man of local influence or his work will suffer, and he must also be thoroughly trustworthy as, following the custom of the trade, no security is given. He is paid a small commission on his purchases according to weight. This will be slightly higher if he uses his own house for temporary storage. To enable him to pay for his purchases he receives an advance of from £100 to

¹ Cf. Appendix (a).

² Paragraphs 66 and 67.

³ All but 25 of these belong to the Bavarian Central Bank at Munich. 28 are small granaries which are only open one or two days a week.

⁴ The central bank builds 3 types of elevators holding—

(a) 400—500 tons.

(b) 700—800 „

(c) 1,000—4,000 „

The recently constructed elevator at Lyallpur, the only one of its kind in India, is a good example of an up-to-date elevator.

£300 according to circumstances. Maximum rates of purchase are fixed by the central bank at Munich, where too all sales are effected. Once a week the amount purchased is reported, and no further purchases may be made until the reports of all the agents have been considered and fresh prices fixed. When grain is bought, the vendor generally undertakes to store it for a month or so to allow time for the grain to be sold and for transport to be arranged. Ordinary disputes are dealt with by a local arbitrator, while serious disputes are settled under the arbitration procedure of the corn market. In this case each side selects an arbitrator from an authorised list, and if the two arbitrators cannot agree, the corn market appoints a referee whose decision is final. In a court of law it can only be challenged for an error in form. No lawyers are allowed to take any part in the proceedings. The procedure, in fact, closely resembles that in force for co-operative societies in the Punjab.

In 1909, 4,000 tons of grain were handled, of which over 2,000 passed through the elevator. In addition another 500 tons of potatoes, turnips and hay were also sold. No difference is made between co-operators and others, but it is now proposed to supply the former with their agricultural requirements at a cheaper rate. The six-monthly balance sheet has twice shown a small loss. This indeed is inevitable, as the margin between purchase and sale is not more than 3 per cent. On the other hand, the balance sheet of all the central banks' granaries taken together has invariably shown a profit.

(c) Management and Control. The paid staff consists of a manager on only £60 a year. There is no local committee, but each¹ district in Bavaria is represented on the central bank's board of supervision, and the local representative, usually a substantial landowner or occasionally a priest, is expected to visit each granary in his circle two or three times a year without notice. He has also to do the stock taking twice a year.² For all this work he gets no more than five shillings a day when on tour.

(d) Weevil. There is no complaint of weevil trouble in the granaries of the central banks. At present the grain is cleared too fast, and in any case the danger is reduced to a minimum by the use of re-inforced concrete, which

¹ There are 8 in the State.

² The following deductions are prescribed for annual depreciation :—

buildings	2 per cent.
furniture	10 „
sacks	20 „

has taken the place of the woodwork so extensively used in the older granaries. A further precaution is the scouring of the walls every year with a preparation of sulphuric acid and lime.

Advantages of Granaries 76. Enough has now been said to show that in Bavaria at least the granaries, whether centralised or local, have achieved their purpose. Grain dealers have lost their monopoly and have been forced to pay more for their grain. Superfluous, and not always scrupulous middlemen have been eliminated. Through his society, the producer can now sell his wheat direct to the mills, his barley to the breweries and his oats and rye to the military. Moreover, he is sure of his market and can sell as he pleases. He no longer has to deliver his grain at the beck and call of a dealer, but can bring it to the granary when he likes. There he finds people he can trust, or, if he is badly treated, he can complain. Last but not least, he is secured a regular supply of good seed and thoroughly sound manure, two essentials of good agriculture. The movement undoubtedly owes much to the generous financial assistance provided at the outset by the Bavarian Government¹ and to the extensive purchases of the military department, but it owes far more to the enterprise, capacity and public spirit of those who have laboured so successfully that, as Mr. Cahill says, "in no part of Germany has corn selling been developed to the advantage of small landowners to such an extent as in Bavaria."

¹£100,000 was advanced to the Bavarian Central Bank at Munich in the nineties, to develop its grain business.

CHAPTER VI.—Sale Societies—concluded.

I.—MILK SOCIETIES IN BAVARIA.

77. Milk societies naturally suggest the co-operative creamery, but as there is at present little likelihood of this form of society taking root in India, I confined myself to those whose principal object is the sale of milk. Of these there were 272 last April (1921). Bavaria, Baden and Hanover are the chief centres, but nowhere is the co-operative supply of milk highly developed. So far as the larger towns are concerned, it is a problem that is still unsolved. It is, however, one of the problems marked down to be tackled as soon as the present State control of the sale of milk is removed, and the aim is if possible to establish societies that will sell direct to the consumers' societies in the towns. Meanwhile for us in India, where milk-selling societies are still in their¹ infancy, and where the problem of supplying the more important towns with pure as well as abundant milk is becoming increasingly acute, the experience of Bavaria may be of some practical advantage.

78. Bavaria has about 60 societies, of which as many as 41 were started last year (1920). At present, as everywhere else in Germany, the problem is not to find a market for sale but to increase supply and relieve the desperate shortage, which in most towns last winter made fresh milk almost unprocurable for anyone who was not a small child. Before the war, however, the position was different. The supply in a town like Munich, especially in the holiday season, often exceeded the demand and producers, scattered and unorganised, were at the mercy of the local dealers. The first societies were therefore formed to control and regulate supply, and were equipped with the necessary plant for converting surplus milk into dairy products; and by eliminating two or three unnecessary middlemen and dealing direct with wholesale vendors in neighbouring towns, they were able to secure not only a better price but a regular market. As usual the local dealers did their best to overbid the societies, but were beaten by their cheaper and more efficient organisation. The milk was handled in bulk instead of in detail. It was delivered cooled and cleaned, and periodic tests secured the consumer against adulteration. Thus, in spite of supply often exceeding demand, these societies had no difficulty in finding wholesale dealers

¹ Bengal with 40 societies is the most advanced province.

who were willing, for a fixed price, which was determined from year to year, to take the whole of a society's supply whatever the amount. In this way one of the two great difficulties of a milk society, the difficulty of finding a constant market, was satisfactorily overcome.

79. The other difficulty was finance. To cleanse and cool the milk efficiently and to convert surplus milk into curds and cream, an expensive plant was required costing (before the war) from £1,000 to £3,000. Government helped with grant and loan, and unlimited liability secured the rest. For a trading society limited liability is generally better, but for these milk societies unlimited liability was virtually a necessity. One society I saw of less than 100 members had been able to borrow £2,500 from the local central bank. This would have been impossible without unlimited liability. Government assistance was given in the form of loans of a few hundred pounds at 2 per cent., and free grants of £50 to £100 would also be made. But owing to the war Government can no longer assist.

80. Under the by-laws members are obliged to sell to the society only, but this rule is not very rigidly enforced. At the same time it is considered a useful safeguard. The question of compulsory delivery in sale societies has already been discussed, and the conclusion was reached that, for a society with an expensive plant such as an elevator or a wine press, some kind of 'binding rule' was almost essential.¹ But it should always be remembered that in actual practice efficient management is more effective than compulsion. The milk delivered to the society is bought outright, but the price at which it is to be sold for the year is subject to the confirmation of a general meeting, and the whole amount is paid to members less a small deduction for expenses and reserve. Before the war only members' milk was handled, but since the introduction of State control no distinction can be made.

Ordinarily payment is made irrespective of quality or fat content. There are two reasons for this. Firstly it is simpler, and in a village society simplicity is one of the cardinal virtues. Secondly, in most localities there is said to be little variation between one member's milk and another's. To this

¹ See paragraph 60 (c).

Lower Bavaria is an exception owing to its fodder being very variable in quality. Consequently in this district payment is made according to fat content, which is ascertained twice a month. But even there the practice is being given up in favour of the less laborious system of treating all alike. So does practice follow the line of least resistance, whatever authority and principle may say.

Adulteration is guarded against by more or less regular applications of the Gerber test. In the more efficient societies cases of adulteration will be reported to the local authorities and defaulters prosecuted. For a first offence a fine of £15¹ can be imposed, for the second 8 days imprisonment. Instances of this are not common, no doubt because Co-operation puts a man upon his mettle. A local dealer and an unknown consumer may be considered fair game, but to cheat your society is to cheat your neighbour which has a much blacker look. It is one of the best and subtlest effects of Co-operation that it automatically encourages straight dealing.

Not much is done at present to encourage breeding or to weed out the less productive stock. In the district of Algay a record of each cow's output is occasionally kept and the weaker cows are sold, but this is exceptional. So too with the purchase of cows on joint account. Usually each member buys for himself. More common is the co-operative purchase of feeding stuffs. Some societies deal in eggs as well as milk, but this again is rare.

81. At Ebersberg, a village of less than 1,000 inhabitants beautifully situated in the submontane country at the foot of the Alps, is a characteristic milk society. It was founded in 1912 with 80 members who were nearly all small proprietors. It was a long time before they could be persuaded to combine, and one village had to be visited 21 times before it would consent. Now, however, there are 130 members and almost everyone within a radius of 3 miles has joined, except a few who are loyal to an old established local agency. The members own 648 cows or an average of 5 cows each. Many have only one or two, while others have as many as 20. The daily output before the war was nearly 900 gallons. Now it has sunk to 260, which is typical of the effect produced by the war on the milk supply of Germany. Before the introduction of State control, the total output was delivered to a large dairy in Munich, 28 miles away, at a fixed

¹ 300 Marks.

price, the whole of which was paid to members less 1 per cent. for expenses. When supply exceeded demand, surplus milk was converted into curds and cream, which were also taken by the dairy in Munich. Thus the society had no difficulty in disposing of all its milk.

Plant and equipment cost the society over £1,000. A free grant of £75 and a loan of £300 at 2 per cent., repayable over 10 years, were received from the Bavarian Government. The balance was raised from the central bank at Munich by a loan secured against the unlimited liability of the members. As shares are equal, each member taking one share only, no dividend is distributed. Delivery of all milk not required for home consumption is compulsory under penalty, but hitherto no penalty has ever been imposed. Before State control was introduced, all but 10 or 15 per cent. of the available milk is said to have been delivered to the society. Each member's milk is tested once a fortnight for purity, and for this purpose a dozen tests are done daily. Adulterated milk is sent to Munich for chemical analysis and offending members are prosecuted. There have so far been only 3 or 4 cases of this. The milk is brought to the dairy in six conveyances driven by members. In a neighbouring society each member takes it in turn for a week to collect and deliver all the milk of his fellow members in the same village.

Two definite advantages have been secured by the society, firstly, a better price estimated (before the war) at an increase of over 25 per cent., and secondly, a constant market. The consumer on the other hand gets purer milk. The society at Ebersberg was started with difficulty, but it did so well that when three years later it was proposed to form another society in a village 5 miles away, 60 members joined at the first meeting. Both these societies have local men as managers. In one case the manager is the sole paid official. In the other he is assisted by his wife. This couple is paid the modest sum of rather less than £40 a year *plus* free house, light, milk and fuel.

II.—VINE-GROWERS SOCIETIES.

82. So far I have dealt only with the ordinary form of sale society which sells the produce it buys, whether grain, vegetables or milk, in the form in which it is received. I come now to the more advanced type which before sale converts its members' produce into something radically different. The vine-growers society is a good example of this, as grapes are bought and wine is sold. At first sight such a society can have only an academic interest for India, as India is unhappily no country for

Their significance for India.

grape and vine. On the other hand cotton abounds, and like the grape it cannot be efficiently handled without expensive machinery, nor can it be sold to advantage without co-operation, as the uncertainties of a fluctuating market put the inexperienced producer, when he stands alone, entirely at the mercy of the better informed and not too scrupulous dealer. Accordingly a brief account of the vine-growers societies of Germany may be of practical interest, the more so as a co-operative ginning factory has long been projected for the Punjab.

83. At the end of 1919 there were 193 societies, most of which are to be found along the Rhine and its tributary valleys. They have had a chequered history, which shows that even in so efficient a country as Germany success cannot always be achieved. Before the war bad vintages, grape diseases, and foreign competition (French and Italian wines were becoming increasingly popular) reduced many societies to the verge of bankruptcy. Prices fell, members were found to have been overpaid for their grapes, cellars overflowed with unsold wine, new cellars had to be acquired, and more and more capital was locked up. In some cases bad management intensified the crisis. A Union of 15 or 20 societies went into liquidation with a loss of over £100,000. Its member societies were only saved by the Raiffeisen Central Bank coming to their rescue with a loan of £50,000 raised largely from village banks. Incidentally this is a good instance of the advantage of a banking system which is co-operative in spirit as well as in form. To many of the vine-growers societies the war was a blessing in disguise, for it stopped foreign competition and raised the price of German wines so high that last autumn when I was in the vineyards of the Ahr and the Moselle, every society was once more firmly on its legs.¹ The future, however, is uncertain. Some think that there are bad times ahead, and it may well be questioned whether the bleaker North can ultimately hold its own unaided against the sunnier South.

84. Of the 193 societies that existed in 1919 all but 16 had unlimited liability. This form was chosen for precisely the same reason that led the milk societies to adopt it. A large working capital is required for cellar, cask and vat, and 60 to 90 per cent. of this still has to be borrowed.² As the ordinary vine-grower commonly owns no more than an acre or two of vineyard, he was obliged at the outset to pledge his entire resources to raise the necessary funds. These were obtained, as in all such cases in

Form of Society.
(a) Liability.

¹ Good wine that used to cost 4 or 5 marks a bottle was not to be had under 50 or 60.

² In 1919, 119 societies owned only 14 per cent. of their total liabilities.

Germany, from the local village or central bank. Thanks to the excellent banking system which has already been described, no rural society in Germany need suffer for want of funds, as money can always be raised provided security is good.

Societies are usually small. I saw one of 180 members, but 60 to 70 is the average. Nowhere in Germany did I see anything more like our Indian village communities than the compact little slate-tiled villages set in their vineyards, a mile or two apart, along the banks of the green Moselle. Members are bound to bring all their grapes to the society except what they need at home, and the obligation appears to be enforced. I came across two or three instances of expulsion on this account, which shows that if a society is small and co-operative spirit strong, a binding rule need not be a dead letter.

(b) Size of Society and Binding Rule. On delivery the grapes are tested for sugar content by a committee appointed for the purpose, and they are graded accordingly. There may be as many as 40 different varieties, each of which will be paid for at a different rate. The grapes are usually bought outright and paid for at the market rate, or at a price slightly below it. When the wine is sold a further payment will be made, but the highest price obtained in the neighbourhood will first be ascertained, in order that at least as much, and if possible more, may be paid to members. Or commission sale may be adopted, in which case no payment is made till after sale. Or again the two methods may be combined. At Mayschoss for instance, a village in the wooded valley of the Ahr which boasts the oldest vine-growers society in Germany, founded in 1863, the wine is paid for provisionally at 25 per cent. below market value, and further payment depends upon the price realized at sale. It may be two or three years before all the wine is sold and final payment can be made. Payments are not made in cash but by credit to each member's account. Members can draw upon their credit as they please, and 4 per cent. is paid upon any sum undrawn, which is treated as a deposit at call. If a member requires more than stands to his credit, an advance will be given on next year's crop, as soon as it is clear that he will have one, up to half the value of the last. Half the net profit goes to reserve, and the other half being usually small is only distributed once every three years. In a neighbouring society the system is similar with, however, one or two differences which are worth noting. When the provisional price is fixed, it is reported for confirmation to a general meeting at which all members'

(c) Payment for Wine.

accounts are made up. Five per cent. is deducted from the total amount due and put into an insurance fund, which is the first fund to be drawn upon in the event of loss. After three years, if there is no loss, the amount is distributed. Some societies provide against loss by an equalization fund, which means that a sum is set aside from the profits of good years to make up the deficiencies of bad.

The greatest importance is attached to a strong reserve and all the societies I saw had a triple line of defence. Two even had a fourth barrier as well. The subject of reserve funds is so important that it is treated separately elsewhere.¹ Meanwhile, it is sufficient to say that a sale society with heavy commitments—one of the 4 vine-growers' societies I saw had over 300,000 gallons of wine in its cellars—cannot have too large a reserve.

Advantages. 85. There seems little doubt that these societies have achieved their end. As with granary societies, marketing has been facilitated by combination and tillage improved by grading. In the old days the vine-grower was at the mercy of the wine merchant, just as the peasant proprietor of Bavaria was in the hands of the grain dealer. As one president remarked, pointing to a queue of members 100 yards long waiting to deliver their grapes:—"The crop is first rate, but if we had no society, the market would be flooded with wine and we should all be forced to sell it for an old song." Another president reckoned that members get 10 per cent. more than if they had no society. The benefits of co-operative sale are unquestioned, and it makes little difference whether it is milk or wine, cotton or grain. But equally unquestioned are the difficulties. Co-operative spirit must be stronger than in any other form of agricultural society, and there must be good management as well. These are the alpha and omega of success.

¹ Appendix (a).

CHAPTER VII.—Two Mortgage Banks.

86. There is no economic problem more vital to India's prosperity than the transformation of her mortgage debt from a burden into a source of strength. Mortgage debt is only to be feared if it is unproductive or dear. In India it is both. It is therefore a millstone round her neck instead of being, as in Germany, the foundation of her development. It is not that in Germany mortgage debt is low. Proportionally it is far heavier than in India, but it is raised at 4 instead of 12 per cent. and is for the most part spent in drawing fresh wealth from the land.¹ Had India the same facilities as Germany, she would be able to borrow at 7 or 8 per cent. and crores of rupees would eventually become available for the development of her resources. At present, so far as I am aware, the Punjab is the only province which has a mortgage bank and that was only started last year. Contrast this with Bavaria which, with a population of only 7 millions, has no less than 8 banks that in greater or less degree do land mortgage. But Rome was not built in a day. Germany's admirable system is the result of 150 years of experience and effort. India, therefore, cannot hope to solve her problem in a year or two. That, however, is an argument for grappling with it at once.

87. The problem is certainly formidable, for land credit is a much more complicated and technical affair than the short term credit with which every co-operator in India is familiar. Though much has been written on the subject, it is not easy for the ordinary layman to understand precisely how a land mortgage bank works. The following detailed account of two typical institutions may therefore be of use. The two selected are the Agricultural Credit Association at Dresden and the Bavarian Agricultural Bank at Munich. Both are in effect co-operative societies, and both make it a principal object to assist the small proprietor.² Consequently both are of special interest, as in the Punjab the small proprietor predominates, and it is through a co-operative society that the first experiment in land credit is being made. The Association at Dresden operates throughout the old Kingdom of Saxony and the Bavarian bank throughout Bavaria. In both States holdings tend to be small, in Bavaria 94 per cent. being under fifty acres and 36 per cent. under five.³

Like the co-operative granaries already described the Bavarian bank owes its origin to the agrarian crisis of the nineties and was founded ex-

(a) The Bavarian Agricultural Bank.

¹ In Prussia alone agricultural debt, of which a large part must be mortgage debt, amounted in 1902 to £377 millions. (Enquiry by Professor Sering).

² The Association at Dresden is not actually registered under the Co-operative Societies Act of 1889, but its general organisation and spirit are co-operative.

³ For Saxony the corresponding figures are 56 and 5 per cent.

actly 25 years ago, in 1896. It has 25,000 members of whom about 2,500 are no longer in debt to the bank. A 100-mark share must be taken for every 5,000 marks borrowed, and, as no one may hold more than 1,000 shares, borrowing is limited to five million marks.¹ When a mortgage debt is repaid shares are returned, or, if it is desired to remain a member, a single share is retained. Dividend on shares is limited to 4 per cent.²

The Dresden Association, which was founded as long ago as 1864, also has shares, but no one may hold more than one.³ The amount payable depends on the amount borrowed and varies from five shillings (50 marks) for a loan of £25 (500 marks) to £5 for a loan of more than £2,000. In this case there is no limit to the amount that may be borrowed; nor is there any limit to dividend, an example which should not be followed in India. Another and an important point of difference between the two associations is that in Bavaria liability is limited to 10 times the value of the share capital, whereas in Saxony members pledge their entire landed property. No business enterprise could have a stronger and a wider basis. The war indeed has shown that the security of land may be greater even than the security of Government. A remarkable illustration of this will be given later.⁴

83. At the outset neither bank could entirely dispense with Government assistance. The Dresden association was given a cash credit of £37,500 to facilitate the sale of its bonds, for which at first there was little demand. But four years later the account was closed, and since then the bank has been self-supporting. The Bavarian bank has been less independent. It has never repaid the initial Government loan of £250,000 with which it was floated, and £50,000 of this is still free of interest. In 1919 another £17,000⁵ was advanced, also free of interest and for an indefinite period, out of the profits made from food control. It was a condition of this loan, a condition that might be imitated in India, that the four co-operative central banks in Bavaria should advance

¹ Marks		1914	1921	(approx.)
100	=	£5	10	shillings
5,000	=	£250	£25	
5,000,000	=	£250,000	£25,000	

² For an abstract translation of the by-laws see Cabill's Report, p. 60. The more important recent amendments are given in the account that follows.

³ No other land credit association has shares.

⁴ Paragraph 92 (d).

⁵ 3,400,000 marks.

another £10,000¹ at 3 per cent. In spite of so much assistance the bank, till recently, has never had as much capital as it required. It has no deposits, whereas the association at Dresden at the end of 1919 had 20 million marks. The contrast between the two institutions suggests that Government assistance, sparingly given in the one case and lavishly in the other, has been a source of strength in Saxony and of weakness in Bavaria. If this inference is correct, it bears out the general conclusion given above in regard to State help.²

89. Anyone can obtain a loan, even though agriculture is not his principal profession, provided that in Saxony he owns not less than $1\frac{1}{4}$ acres, and in Bavaria he has enough land to justify an advance of 500 marks.³ House property is only taken into account in so far as it is required for farming. Residential and amenity value are not regarded, nor are cattle, implements and other agricultural appurtenances. The basic principle is that no property can support a mortgage which is not immoveable. In Saxony this is applied even to timber. In Bavaria forests are too important to be entirely excluded, but they can only be considered when insured and systematically worked. With rare exceptions only first mortgages are accepted. In Bavaria a second mortgage will only be taken when the bank holds the first mortgage. If a loan is required to pay off an old mortgage, the money is paid to the mortgagee direct, either by the association itself or through one of its local agents. If the maximum loan that can be sanctioned is not sufficient to clear the old mortgage, no loan will be made.

90. Before a loan can be given the land must be valued. The importance of accurate valuation can scarcely be exaggerated. If too cautious, credit is unduly restricted; if too liberal, the bank is endangered. Each association has its own method. In Saxony the basis is the land tax. Forty times the tax is taken as the approximate value of the land, and advances are made up to 60 per cent. of the amount. As, however, the tax is based upon a land assessment made in 1843 and land values have risen enormously since, more will be advanced if desired. In that case some reliable member of the association living in the neighbourhood is asked to inspect and report upon the land. Sixty per cent. of his valuation is the maximum that can then be given, but to guard against loss not more than 50 per cent. is usually allowed. In

¹ Two million marks.

² Paragraph 50 (c).

³ 1914: £25, now about £2: 10.

determining the precise amount, the quality of the land and the general agricultural conditions of the neighbourhood are considered. These can be readily ascertained from information available at headquarters. Information of this kind is important, for without it local valuations could not be checked. If there is reason to doubt the latter, a member of the Council of Administration is sent to the spot to report. But on the whole valuations can be trusted, and it is only occasionally that local influences induce too generous an estimate. The association has about 300 special local agents called "men of trust" (Vertrauensmänner), who are freely used for the purpose of valuation. For this they only receive a fee of a shilling or two.

In Bavaria no attention is paid to the land tax, which is considered too mechanical a test to apply to widely varying individual circumstance, though it is admittedly a convenient practical basis till the necessary local knowledge can be acquired. Nor is much advantage taken of the local agent who is only used in doubtful cases of small importance. For the most part the bank works through its own officials, who are encouraged to go to the spot as often as possible, in order that they may acquire the local knowledge which is regarded as the only sure basis for accurate valuation. When land is inspected, the official has to gauge not only sale value but also net yield, paying, however, more attention to the former. Net yield is naturally difficult to estimate, and in Saxony, with some show of logic, it is ignored on the ground that it varies with each cultivator, and that in the 50 or 60 years that a mortgage lasts the cultivator may change several times. Neither in Bavaria nor in Saxony is the present inflated value of land, due to a grossly depreciated currency, accepted as a basis for loans. But, whereas in Saxony agents are specially instructed to value at pre-war rates, in Bavaria a 10 to 25 per cent. increase in value is admitted, as it is assumed that prices will not return to a pre-war level. On the other hand not more than 50 per cent. of the total value may be advanced which is 10 per cent. less than the maximum limit in Saxony.

The dominant feature of both systems of valuation is caution combined with accurate local knowledge. Of the two the Bavarian system is likely to be the better adapted to India, as it would be difficult at first to find a sufficient number of suitable local agents, and delay would be almost inevitable. In Saxony it takes no more than a fortnight to obtain a valuation, and in Bavaria with its more bureaucratic system it is said to take only ten days, and less if the case is urgent. But India could hardly expect to rival this.

91. Both in Saxony and Bavaria the local agent or 'man of trust' is an important link between the bank and its many thousand members. In early days in Saxony he was generally a village schoolmaster or a parish priest, but the spread of education has made it possible to use the small proprietor. In Bavaria the agricultural teacher is still freely employed. Though only bare expenses are paid, plenty of good men are available as co-operative spirit is strong. In addition to making valuations they assist the inexperienced cultivator with his application, and in Saxony they sometimes accompany him to the bank to steer him through the perplexities of mortgage credit formalities. For this they receive a commission of $\frac{1}{8}$ th per cent. of the loan. In India a similar system will be almost a necessity to the illiterate cultivator.

92. We come now to the crux of the matter, namely, the issue of bonds. As most people know, this is how land mortgage loans are financed. They are issued in series varying in value from £25,000 to £50,000.¹ This is done for convenience, as it is easier to deal in a series than in an indefinite number of isolated bonds. Like any other type of security, they are bought and sold on the stock exchange and carry fixed rates of interest, which may differ from series to series, but are the same for all the bonds of a single series. Originally in Saxony they were given to the borrower to negotiate, but, when it was found that this put him at the mercy of a market that he did not understand, he was paid in cash. This is now the universal system and the only possible one for India.

Neither in Saxony nor in Bavaria does the borrower get the full amount of his loan. 2 per cent. is deducted for expenses and stamp duty ($\frac{1}{2}$ per cent.), and in Saxony there is a further deduction of 3 per cent. to cover any possible loss on the sale of the bonds issued against the loan. If, for instance, the current market rate for bonds of a particular series is 101, only 93 per cent. will be paid to the borrower in cash. 2 per cent. is deducted for expenses and 3 per cent. is retained till the whole series is sold. This may take three or four years, at the end of which, if the total price obtained for the bonds (less the 2 per cent. deducted for expenses) exceeds the total amount paid in loans, the balance will be credited to the members concerned in proportion to their loans; or if there is a deficit, which however is rare, their accounts will be debited instead.

¹ 5 to 10 million marks.

For the first two or three years both banks found it difficult to sell their bonds. We have already seen that in Saxony the difficulty was met by obtaining financial assistance from Government. In Bavaria the commercial banks were given a specially favourable commission to induce them to do their utmost to sell the bonds. Government pressure, too, was applied to Public Trusts, Local Bodies, etc., to buy them. Both in Saxony and in Bavaria the bonds have been declared Trustee stock.

In Bavaria the bonds have fluctuated little in value, but in Saxony in 1870, owing to the Franco-Prussian War, they fell to 82. The recent war had just the contrary effect. The bonds, which in 1914 stood at 97, rose to 113 and in October 1920 still stood at 108. At that time war loan stock, issued at 98 and carrying a higher rate of interest, stood at $77\frac{1}{2}$. This remarkable contrast is due to the fact that the land on which the bond is secured is as valuable as ever, whereas the credit of Government has been shaken by depreciation and defeat to its foundations. It is a good illustration of what was said above, that ultimately the security of land may be even better than the security of Government.

It is a fundamental principle in the issue of these bonds that they must not exceed the amount on loan.¹ Accordingly, as repayments are made, bonds of a corresponding value are redeemed either by purchase or, if they stand above par, by annual lottery. In Saxony, till recently, bonds had to be bought in by lottery at par, and as their price generally stood below par, this was an advantage to the bondholder. Now, however, the bonds are too popular to need a fillip of this kind. For ordinary mortgage banks it is, I believe, laid down that the value of the bonds issued should not exceed 15 times the amount of their paid up shares and reserve. Though this ratio is not adhered to by either of the two associations I am describing, it might be prudent to do so in India, at least till experience is gained.

93. In Saxony there are two scales of repayment. One extends over 59, and the other over 78 years. In the first case $\frac{9}{20}$ ths per cent. of the mortgage debt is repaid each year, in the latter only $\frac{1}{5}$ th. In Bavaria, subject to a minimum annual rate of $\frac{1}{2}$ per cent. which takes $52\frac{1}{2}$

¹ In Bavaria a temporary excess must be covered either by cash or by Government bonds valued at 5 per cent. below their market value.

years for full payment, a member may decide for himself the rate of repayment. This rarely exceeds 2 per cent. of the loan. These repayments, which are made every 6 months, are credited to a sinking fund, which is allowed to accumulate at compound interest till sufficient to extinguish the mortgage. In addition to principal the six-monthly amortisation payment includes interest on the loan, now 4 per cent. in both banks,¹ and a charge to cover the costs of management. In Bavaria $\frac{1}{2}$ per cent. is charged for the latter, but in Saxony not more than $\frac{1}{10}$ th per cent. A charge is necessary, as the rate of interest paid by the borrower is exactly the same as that paid to the bondholder.

A loan cannot be recalled, except in special circumstances which are specified in the by-laws. Generally speaking they are circumstances threatening the security of the loan, but the power is rarely, if ever used. It is, however, a necessary safeguard. A borrower on the other hand may repay as soon as he wishes. But in that case, so far as Saxony is concerned, a repayment made before it is due must be made in bonds, and the bonds must be of the same series as the bonds issued to cover the loan. In Bavaria, cash will be taken subject to six months' notice. The fullest advantage of the privilege has recently been taken, as the war has brought a momentary prosperity to the farmer. In the last 3 years the Bavarian bank has been repaid 30 million marks before the prescribed date. The proprietor's gain is even greater than appears, as these 30 millions were borrowed in gold and have been repaid in paper. It is estimated that the mortgage debt of Bavaria has been reduced by a quarter. This phenomenon is not peculiar to Germany. Probably every country in Europe, in greater or less degree, has the same tale to tell. It is not that war and rural prosperity go hand in hand, but war paralyses the town and leaves the country relatively unscathed.

In these circumstances, as can be imagined, default is rare. In Saxony at the end of 1919, out of a total of £132,000 of interest due to the Association only £75 remained unpaid. But even before the war default was uncommon. In the 10 years ending with 1913 the average number of auction cases in Saxony was less than one per 1,000 borrowers. Before land is auctioned, the defaulter is given 15 days' grace, at the end of which a reminder is sent. Failing payment within 8 days, the member is sued and 1 per cent.

(b) Repayment before date.

(c) Defaulters.

¹ In the Bavarian bank the rate may not, under the By-laws, exceed 5 p.c.

penal interest is levied. Process is summary, but even so, if the proceedings involve an auction, they may easily last six months. When for good reason repayment is difficult or impossible, an extension of three months will be given. If more is needed, a local agent is asked to report.

94. In addition to the ordinary mortgage business the Association at Dresden makes a certain number of short-term loans secured by mortgages. This is only done when a loan is not required for more than two or three years, or when the market is too unfavourable for the issue of bonds. In that case the loan will be converted into a long-term mortgage as soon as conditions improve. The business under this head is small, and in 1919 the amount outstanding was only £32,000.

95. A word must now be said about management. The Bavarian bank is organized like any other co-operative society; that is to say, it has a committee and a board of supervision. The former consists of two paid officials. The organization of the Association at Dresden is more elaborate. In addition to a directorate of three paid officials, there is a Council of Administration and a joint committee formed of the directorate and the council. There is also an entirely separate audit committee of 5 chosen by the General Assembly to check the accounts. In Bavaria the directorate is elected by the General Assembly, but in Saxony this is done, with perhaps greater prudence, by the council. The members of the latter are paid a fee of £5¹ a year. In Bavaria the members of the corresponding board of supervision receive only their bare expenses. Both bodies are in effect honorary. The General Assembly is held once a year, but is poorly attended. At Dresden in 1919 only 53 out of 15,000 members were present, and at Munich not more than 40 or 50 come.

96. In Bavaria, owing to Government's large financial interest in the bank, there is a State Commissioner who attends the meetings of the board of supervision, watches the bank's dealings in bonds and generally controls its affairs. The Association at Dresden is also subject to supervision of a similar character. Land Credit is too complicated and the interests at stake too important for Government to remain entirely aloof. This applies not only to Germany but also to Denmark, Holland and Russia.² India can hardly expect to be an exception.

¹ 1,000 marks.

² Smith-Gordon, *Co-operation for Farmers*.

97. Both associations advance considerable sums to local bodies who borrow freely for roads, water-works, electric schemes and other public works. The loans require the sanction of Government and are usually made for 30 years. They are secured against the entire resources and taxing capacity of the local body concerned and, as in the case of mortgages, are financed by the issue of bonds. In Saxony these loans are almost double the amount advanced to individuals and at the end of 1919 totalled nearly £2 millions. It would add much to the utility of a mortgage bank in India if this form of credit could also be undertaken.

98. Together the two associations have advanced over £1½ millions¹ to agriculturists. The Bavarian bank claims to do about 30 per cent. of the total land mortgage business of Bavaria. For 1919 the combined profit of the two institutions exceeded £4,000.² The stately premises of the Dresden Association sufficiently attest its prosperity. The Bavarian bank is also well housed. Good housing is indeed a marked feature of the larger co-operative institutions in Germany.³

99. The Bavarian bank is the only land credit institution in Germany that is registered as a co-operative society. This form it finds a little irksome. Under the Co-operative Societies Act of 1889 not only must every society have shares but, subject to notice, every member can withdraw with his share when he likes.⁴ In the last five years, owing to so many mortgages being prematurely extinguished, nearly 5,000 members have withdrawn. The disadvantage of this is obvious, and incidentally the return of so many shares involves much office work which adds to the cost of management. Shares, too, involve dividends and the issue every year of 25,000 dividend warrants is no light task. On the other hand shares bring capital which may be badly needed. The directors suggested that it would be better, either to have a substantial entrance fee without shares, or equal shares (each member holding the same amount) without dividend. In either case, to obtain capital, members might be obliged to pay a special commission on their loans or a contribution proportioned to the amount borrowed and repayable on the extinction of the mortgage. The directors added that, whatever form is adopted, simplicity was essential. The costs of management

¹ 300 million marks.

² 800,000 marks.

³ Nowhere in Germany did I see anything in any way corresponding to the exiguous quarters occupied by the Registrar and his staff at Lahore.

⁴ See Appendix (b).

depend upon this, and incidentally the reserve, which can only be built up out of profit. Under their by-laws both associations have to carry 10 per cent. of their profit to reserve. But this is only a minimum, and the Bavarian bank in addition to a statutory reserve of £3,000 has a special reserve of over £7,500.¹

100. In Bavaria, and to a lesser extent in Saxony, the chief object has always been to assist the small proprietor. That this object has been substantially achieved in Bavaria is shown by the fact that, up till 1912 (no later figures are available), 64 per cent. of the total number of loans were given to proprietors of 25 acres or less, and in 1919 63 per cent. of the outstanding loans were for sums of 5,000² marks or less. This is a satisfactory record, as there is always a temptation to prefer a single loan of large amount to a number of small loans which involve much more labour and expense.

101. An all important question remains. Borrowing has been rendered easy and cheap, but has debt been reduced? There is no certain answer to this question. The directors of the Bavarian bank thought it most unlikely that debt had increased, as the Bavarian peasant has a healthy fear of debt and always does his best to be quit of it as soon as possible. Moreover, the object of every loan has to be stated, and if the bank is not satisfied of its utility or necessity, the loan will be refused. In Dresden the competition between the different banks makes this impossible. In India it will undoubtedly be advisable, for in a backward country, where debt is almost a habit, cheap credit must be controlled or it becomes a curse instead of a blessing. A good safeguard is the provision that not more than 50 or 60 per cent. of total value may be advanced. A minor safeguard is the rule of the Bavarian bank that any loan exceeding £250 requires the sanction of the board of supervision.

102. If these two institutions have been described at exceptional length, it is because the organization of a sound system of land credit is of urgent need in India. Nowhere is the need greater than in the Punjab which with its 40,000 money lenders is the most usurer-ridden province in the country.³ Recent enquiries show that the agricultural mortgage debt of the Province can hardly be less than 20 crores of rupees.⁴ The bulk of this is

¹ 1½ million marks.

² 1914 = £250.

1921 = £25 (approx.)

³ Calvert, *Co-operation in the Punjab*.

⁴ £20 millions.

borrowed at an average rate of 12 per cent. A proper system of land credit would reduce the rate to 8, if not to 6 per cent. In Germany the reduction has been from 7 or 8 to 4 per cent. The Punjab might therefore ultimately save a crore of rupees a year, which could be applied either to the reduction of debt or to the development of resources. And there would be the further advantage that lending would be controlled, promiscuous borrowing would cease and unproductive debt would gradually disappear and productive take its place. To the sceptic all this may well recall Utopia rather than the East, but 15 years ago few thought that it would be possible to free the cultivator from the immemorial bondage of the usurer. Yet in many parts of India his power is already shaken, and in the Punjab alone nearly 8,000 village banks stand in his place. The problem of personal credit has in fact been solved. Now it is time to tackle the more difficult problem of land credit. At the outset financial assistance from Government will be necessary, as it was with the first village banks. But eventually there is no reason why the land should not finance itself. One reason why land in the Punjab fetches an almost fantastic price is the absence of good investments for surplus capital. The bonds of a good land credit bank should help to remedy this. If at the same time, as has been urged above,¹ the village bank is made a reservoir for deposits as well as loans, there should be no dearth of capital. Finally, a properly organized system of land credit must ultimately drive the money lender from his last stronghold.² There are few relationships so injurious to both parties as that of money lender and borrower. In India it is almost invariably demoralizing, and it makes little difference whether the money lender is a bania or an agriculturist. It is only when lending is impersonal and when it is controlled that it does not do harm. The great merit of co-operative credit is that it satisfies both conditions.

¹ Paragraph 6.

² That the problem is at once important and formidable is shown by the following:—"Money lending is the largest trade in the province; it yields profits that exceed those derived from agriculture; it has led to estrangement between class and class, and at one time threatened the ruin of the Punjab's one big industry"—Calvert, *Co-operation in the Punjab*, page 6.

CHAPTER VIII.—Electricity societies.

103. In India outside the larger towns electricity is rarely available. At first sight, therefore, it would seem superfluous to write of electricity societies. There are, however, signs that as the primitive "chiragh" has given way to the kerosine lamp, so the latter will eventually have to yield to electric light. Already in the Punjab schemes are afoot for supplying half the province with electricity. The example of Germany shows the potential value of this to the development of agriculture. Nearly every agricultural machine I saw, whether for threshing wheat, cutting fodder, hulling rice or elevating grain, was driven by electricity. Accordingly it is not surprising to find that in the last 10 years a large number of electricity societies have sprung up to supply a need, which the economic consequences of the war have only intensified. As a result of the war everything is scarce and correspondingly dear. Coal and oil are only to be had with difficulty. Horses and draught cattle cost fabulous prices and wages are 10 times what they were. It is natural therefore that Germany should turn to her hills and to her mountains for the one thing that is as abundant as ever. With an ample supply of water power and with the electricity that can be generated from it, the labourer can be replaced by the machine, horse and bullock by the tractor and the oil lamp by electric light. That the process has already begun is shown by the fact that at the end of 1920 there were 2,970 electricity societies of which 1,701 have been started in the last two years. Many societies, in Bavaria for instance 15 out of 53, have their own power stations, but with most the object is simply to provide their members with electricity which is obtained from a central power station. This is the form that might, I think, be introduced into India and which I now propose briefly to describe.

104. To secure electric light two main operations are necessary. A general distribution system must be erected, and each house must be fitted with an installation. The former is always done by the society, but in Bavaria the latter is usually left to members to arrange for themselves. In that case the society, to ensure a sufficient measure of uniformity, stipulates that only certain firms shall be dealt with. In the Rhine Province a number of societies undertake both operations. But experience seems to be against this as it involves more supervision than can be expected of the average society. In Bavaria, when the distribution system is complete, it is often surrendered to the central power company without payment. The advantage of this arrangement is that all maintenance

The Distribution System.

charges devolve upon the company; its disadvantage that it places the society at the company's mercy. In Bavaria this is not considered a serious drawback, as electricity supply companies are strictly regulated by law. In the Rhineland on the other hand it is the rule for societies to maintain their own distribution systems, and, unless it is proposed to dissolve a society as soon as the cost of erection has been recovered, this would seem to be the wiser course.

105. If the system is surrendered, the cost of erection is recovered from members by annual payments, which include a charge for interest and extend over a considerable period. Before the war the period fixed varied from 10 to 20 years, but owing to his prosperity during the last two or three years the small peasant proprietor has been able to pay much faster than was expected. Consequently it is impossible to say how long would normally be required for full payment. In the Punjab it could hardly be less than 15 or 20 years, except perhaps in districts where money was unusually abundant. If the distribution system is retained by the society, the problem is substantially the same though the method is different. Capital cost has not to be recovered as such, but every year allowance must be made for depreciation. In the Rhineland societies are recommended annually to write off 5 per cent. of the original cost, which means that the whole will be paid for in 20 years. A good example of this is a society of 40 members, which in 1913 erected a distribution system at a cost of £750 and in the first 6 years wrote off £200 and in addition carried £90 to reserve. This can only be done by fixing a fairly high charge for light and power. Payment for the latter is not invariably made through the society. When the distribution system is surrendered, societies usually allow their members to pay the company concerned direct.

106. Like every other agricultural co-operative society which requires an expensive plant, electricity societies are financed partly by share payments and partly by borrowing from the local village or central bank. Occasionally a commune will guarantee a loan, but only when there is general eagerness to obtain electric light. The German co-operative banking system is so good that neither in Bavaria nor in the Rhineland, the two areas where enquiry was made, has any great difficulty been experienced in obtaining funds. Latterly indeed so much money has flowed into the countryside, that many societies have been able to raise a substantial part of their funds from their members. Figures for over 700 societies in 1919 show that about 70 per cent. of their working

capital was borrowed. The proportion now is probably much less.

A greater difficulty than the provision of funds is to secure that estimates are not exceeded, and that income and expenditure can be balanced without unduly high rates. In India estimates are proverbially unreliable. Accordingly every society should insist upon having its estimate guaranteed, if it wishes to avoid serious financial embarrassment at the outset. Indeed the various financial aspects of a scheme cannot be too carefully examined, before a society commits itself irrevocably to an undertaking from which there can be no withdrawal. A creamery, an elevator or a factory will always fetch some sort of price if they have to be sold, but an electrical distribution system has no value apart from its special use. The greatest caution is therefore required at the start. Further, where payment for light and power is made through the society, the charges should be pitched sufficiently high to cover all expenditure and leave something over for reserve. This obvious truth would hardly need to be stated, but for the fact that in 1918 nearly half of the 700 societies mentioned above worked at a loss, which is mainly ascribed to the neglect of this elementary precaution. Too often the committee, influenced by popular pressure, is led to fix a rate which is inadequate.

107. Liability in these societies is usually limited, and, provided share payments are substantial, this is generally agreed to be sound.¹ But if a society is small or members poor, unlimited liability may be a necessity to enable a sufficient sum to be borrowed. This tendency has already been noted in connection with milk and vine-growers societies. The number of members in an electricity society varies much from place to place. Some have barely a dozen, others several thousand members, but the average runs from 50 to 70.²

108. A detailed account of a society I saw in Bavaria will serve perhaps to bring out more clearly some of the points explained above. Grosskarolinenfeld is a long straggling village of 800 inhabitants lying within sight of the Alps, much as Gurdaspur lies within sight of the Himalayas. But for a small factory it is entirely agricultural. In 1917 the great shortage of coal, petrol and benzine led the more energetic spirits in the village to try and form a society to obtain electricity from a central power station in the mountains 17 miles away. There were the usual

Grosskarolinenfeld
Society.

¹ In 1919 only 11 per cent. had unlimited liability.

² In 1918 the average for 1,007 societies was 59.

prejudices to overcome. One said electricity would be dearer than oil, another that it would be dangerous, a third that oil lamps were good enough for him. For 6 months the issue was doubtful, but at last, after half a dozen public meetings had been held, 56 inhabitants agreed to join and the society was launched. It has now 102 members, and only 20 irreconcilables hold aloof. Most of the members are small proprietors, but they also include the local innkeeper, 2 blacksmiths, a hammersmith, a wheelwright and both priests. School and church, too, are both lit by the society.

The first step was to conclude an agreement with the nearest electricity supply company and link up the village with its central power station. The contract was made for 25 years and a distribution system erected at a cost of £4,500. This was £1,400 in excess of the estimate, a point which is worth noting in view of what has been said above. There was 'much grouching' (viel geschimft), said the secretary of the society rather ruefully, but fortunately there were no withdrawals. As soon as the installation was ready it was surrendered to the company, which in return undertook to maintain it indefinitely in proper order. The society has therefore no further expense in the matter. To meet the initial cost £1 shares were issued, each with a liability of £100, on the strength of which a large loan was obtained from the local village bank at $4\frac{1}{2}$ per cent. As it was decided to leave members to deal with the company direct, the cost of the system could not be recovered through the price charged for consumption of light and power. Instead, each member was assessed at £5 for every electric lamp put into his house, and, if he had any machinery, at £10 for each unit of horse power. The secretary of the society, for instance, installed a dozen lamps in his house and was therefore assessed at £60. In addition he had to pay another £40 for the installation *inside* his house, every member being left to arrange this for himself. His total bill was £100, an amount which roughly represents what most members had to pay. Altogether 100 lamps are now in use and machines with a total of 90 horse power are driven by electricity. Ten years are allowed for payment of principal and interest at $4\frac{1}{2}$ per cent., equal payments being made each year as with the repayment of a mortgage. During the last two years, however, members have made so much out of their land that of the original £4,500 all but £180 has been paid. Otherwise this would probably have taken nearly 20 years.

Very little now remains for the society to do. The distribution system has been surrendered, members deal direct with the company for light and power, and nearly every one in the village

has joined. When the outstanding balance of £180 has been recovered, the society will have no alternative but to dissolve. Meanwhile it has conferred a great benefit on the village. The oil lamp has been almost banished ; the supply of light no longer depends upon a distant and uncertain market, but on the unfailing streams of the neighbouring mountains ; the danger of fire is appreciably reduced, and the smith, the wheelwright and the cultivator can now use the most up to date machinery, in the last case to the great advantage of the land. In this one small society are admirably combined the three great objects of agricultural Co-operation, better farming, better business and better living. I see no reason why in the more prosperous villages round the towns like Amritsar, Lyallpur and Lahore, the example should not be followed.

CHAPTER IX.—Craftsmen Societies.

109. This report deals mainly with agricultural Co-operation, and so far only this side of the movement has been described. In the three following chapters, however, we must touch on the urban movement, which is too important for India to be entirely ignored.

Craftsmen or 'Handwerker' societies, as they are called, were started 20 years ago in different parts of Germany on Schulze-Delitzsch lines, though not by the Schulze-Delitzsch Federation. The latter held aloof, distrusting the influence of Government, which promoted the movement in the hope of weaning the craftsman from his Liberal tendencies. At the end of 1920 there were 4,215 societies, of which 1,692 have been started in the last two years.¹ Urban as well as agricultural co-operation has felt the spur of the ever rising prices, and the craftsman, like the peasant proprietor, has been forced to combine to secure the material of his trade at a price that he can pay. Societies are not very large. In 1918 the average was less than 70. But business is considerable. In the same year goods to the value of well over 300 million marks were sold. Financially societies appear to be strong, for they own 35 per cent. of their working capital. Progress is, however, chequered with failure. In 1918 11 per cent. worked at a loss, and in 1920 there were 250 in liquidation.²

In Bavaria, where I studied the movement, there are about 300 societies, and as many as 34 different occupations are represented. I give a list as it shows not only how wide is the appeal made by Co-operation, but also how varied is the effort needed to satisfy even the simpler requirements of civilized life. The societies include :—

Bakers.	Electrical Instrument makers.	Furniture makers.
Butchers.	Shoemakers.	Potters.
Grocers.	Tailors.	Tanners.
Milkmen.	Weavers.	Saddlers.
Laundrymen.	Joiners.	Stonecutters,
Barbers.	Carpenters.	Scaffolders.
Tobacconists.	Turners.	Tinsmiths.
Hotelkeepers.	Upholsterers.	Lock and Copper-smiths.
Watchmakers.	Painters.	Wood and Coal sellers.
Bookbinders.	Window-cleaners.	Wheelwrights.
Brushmakers.	Glaziers.	Ropemakers.
	Trellis makers.	

All these different occupations have separate societies, though only the tailors, shoemakers and bakers have more than ten

¹ But 625 were dissolved.

² Some of these were doubtless cases of amalgamation.

societies each, and all but three classes are represented in the single town of Munich,¹ which is as important a centre of Co-operation as any city in Germany.

110. Societies in Germany are of two main types which are often combined, namely :—

Types of Society.

- (a) Supply societies, to provide members with their professional requirements, and
- (b) Production societies, which undertake contracts and distribute the work amongst their members who are paid a fixed wage. A few of these are pure production societies, that is to say, they have a common workshop, but this is a difficult form of Co-operation, and in most production societies the member works at home.

111. Supply societies are the commonest as they are the simplest type. In 1920 one half belonged

The Supply Society.

(a) Difficulties. liberal allowance of credit to members, and a speculative tendency to buy more than is needed. The question of credit is governed by much the same considerations as in a rural supply society. The period for which it is allowed should, however, be shorter, as a craftsman's income comes in more steadily than a farmer's, and there is less hold upon a man living in a town than upon a man in a village. Very few societies deal only for cash, and I fear that neither town nor country, occupation or caste, affects the universal disposition to go 'on tick'. Even more important than the question of credit is skill in purchase. The crux of good 'supply' business is to buy well. Every rural supply society has an agricultural wholesale society behind it for both purchase and sale. Many craftsmen societies, too, have Unions which perform a similar function. At Nuremberg I saw one that supplied 70 tailor societies scattered over Southern Germany. But most societies have to depend entirely upon themselves, and recently, owing to a sudden slide in the market, heavy losses have been incurred. In one case a tailors' society in Munich, which will shortly be described, lost £6,000.

Dealings are not exclusively with members, unless neither warehouse nor shop is maintained. The tendency to have one or the other is increasing. The warehouse is generally preferred as it is simpler, but the shop is more profitable. The tailors usually

(b) Stock.

¹Population is 600,000.

have shops for articles which cannot be handled in bulk. A thing like cloth is generally supplied on a commission basis to avoid the large outlay of capital that would be required if it were stocked. The same applies to the shoemaker's leather and the baker's flour. Stock is checked once a year by the committee under the direct control of the board of supervision. This is considered sufficient, provided *every* article is checked and a cursory stocktaking is occasionally done. The auditor is not expected to check the stock as he has not the requisite knowledge. For tailors it must be done by a tailor, for shoemakers by a shoemaker, and so on.

Audit is done by an Audit Union of craftsmen societies precisely similar to those described in chapter 2. In 1918 there were 14 of these Unions in Germany. The Bavarian Union, whose headquarters are at Nuremberg, is one of the largest, and early this year (1921) had over 300 affiliated societies. These are said to be audited once every 18 months, and it is reckoned that an auditor will audit 60 to 80 societies a year.

112. The following points, stressed by the President of the Bavarian Union, are worth noting :—
Miscellaneous Points.

(1) Shares should be substantial, but no one should be allowed to take more than 5 or 10, as a large shareholder may seriously inconvenience the society by withdrawal.

(2) Borrowed capital should not be more than thrice the amount owned. It is a weak point of weavers' societies in the Punjab that they have been obliged to borrow so heavily. Last year they owed eight times as much as they owned, whereas in Germany in 1918 the corresponding ratio for craftsmen societies was less than two to one.

(3) Deposits should not be taken, as there is a tendency to invest them in superfluous stock or to use them for extending credit. Not all societies, however, adhere to this rule.

(4) No non-member should ever be given credit. This is plain common sense, yet it is surprising how often the rule is broken.

(5) In supply societies it is better to sell at market rates and give a rebate than at cost price without the rebate, for, when prices fall, only market rates will be possible, and if this involves loss it can be covered by the profit made when prices are high. But if, when prices are high, goods are sold at cost, it will be difficult to meet any loss due to a sudden fall. The best authorities are nearly all on the side of market price *cum*

rebate, but it is one of those points on which the co-operator often thinks he knows better than his expert adviser.

(6) A society's reserve should be not less than its paid-up share capital. Till then 20 to 25 per cent. of the annual profit should be devoted to it, and thereafter 5 to 10 per cent. The importance of this will shortly be illustrated.

(7) Committees are no longer honorary as everything, including time, has gone up in value.

113. One of the most remarkable societies in Munich is a combined supply and production society

A Tailor Society.

(a) Its Constitution.

of 1,200 master tailors, some of them considerable employers of labour. The journeyman tailor is not admitted. There were originally two societies, one founded for 'supply' in 1886, and the other in 1916 for 'production' to take advantage of the large military contracts arising out of the war. The two societies joined forces in 1920. They operate in two out of the eight districts of Bavaria. Within the same area, but confined to single villages, are five more tailor societies. The Munich society is of the usual form. Shares are £2-10-0¹ each and must be paid up within three months. Liability is limited to twice the value of the share, and no one may hold more than ten shares.

A shop is maintained but only professional requirements are supplied. When I saw it last November it was overstocked and the value of its goods was nearly £8,000. There had been much speculative purchase at inflated prices which suddenly fell, and a loss of £6,000² was the result. The last balance sheet showed a loss of over £2,000, and to cover it there was only a reserve of £500. The society was saved from disaster by its sister society now amalgamated with it. The latter's profit for the year was sufficient for a dividend of 90 per cent., a point which illustrates one of the present limitations of productive Co-operation, and incidentally helps to explain the rise in the price of suits. As most of the members of this society were also members of the supply society, the profit of the one was applied to meet the loss in the other. This was not the first time a large profit had been made. In less than three years of war 300 per cent. was earned from military contracts. In the unfledged co-operator the profiteer is as strong as in any one else.

Dealings in the shop are not confined to members, but non-members get no rebate, which is usually 4

(c) Finance.

or 5 per cent. a year. A member is allowed a month's credit up to $\frac{3}{4}$ of the value of his shares. In 34 years

¹500 marks.
²1,200,000 marks.

not a penny has been lost through this, a fact which is attributed to the searching enquiry made before a member is admitted. In August 1920 the society had £3,000 of its own. Another £9,000 had been raised by deposit, mortgage, and overdraft. Deposits are only taken from members and there is a savings bank for the purpose. The premises, which cost £5,000, have been mortgaged for £2,500. More has been spent on them than was altogether wise, as it is a sound principle that not more than the paid-up share capital should be invested in buildings.

The system followed in regard to contracts for work is characteristic of the ordinary production

(d) Contract System and its Advantages.

society. A contract is undertaken to supply a firm, a factory or a Government department with so many suits of clothes. The work is distributed amongst the members and paid for at a fixed wage, which last winter (1920) was 5·70 marks¹ an hour. Cloth is also supplied but, as it is now very dear, at least two shares must be taken as security against default. The work is done at home, and when finished the articles are the property of the society which is responsible for all profit or loss. Profit is distributed once a year in proportion to wages. The society will not undertake the sale of articles made by members on their own account, fearing the competition that would arise if members were encouraged to compete with each other for work. One of the objects of the society is to secure every member a *fair* share of all available work. This is more to the benefit of the weak than the strong, but it is the special property of Co-operation to protect the weak against the strong. To the efficient master-craftsman, the advantage of a society of this kind is that it enables him to hold his own against the three-headed monster of ring, trust and syndicate, which is rapidly swallowing up all who stand for themselves. The independent master-tailor is finding it more and more difficult to preserve his freedom, and is gradually being forced to enter the service of others. By joining a co-operative society he does not entirely escape from service, but if the society is really co-operative and not another form of the Trade Union, as Italian societies are apt to be, the service may well be perfect freedom. There are five or six hundred master tailors in Munich and nearly all are said to belong to this society, which shows that it satisfies a need.

The society is managed by an executive committee of four including the manager who alone is paid. There is also a board of supervision which meets

(e) Management and Reserve.

¹ Less than six pence.

about once a month, and twice a year there is a general meeting which on the last occasion was attended by 480 members. A small fund of £50 has been formed to help impoverished tailors. Owing to high prices and shortage of raw material, unemployment, when I was in Munich, was acute, and I was told that when work had to be given out by the society, a queue of members would begin to form as early as 4 A.M. There are two formal reserve funds and a third for taxes. — In addition there is the latent reserve of undervalued stock, a feature common to nearly all the societies I saw in Germany. In this case furniture, etc., worth 50,000 marks was valued in the balance sheet at a single mark. Since the heavy loss experienced last year, it has been decided that at least 40 per cent. of the annual profit must be carried to reserve, till it is equal to the share capital which now stands at over £2,000. The society has made the painful discovery that a reserve cannot be too large. It only remains to add that its turnover for 1919 was £30,000.

114. Out of the 1,500 craftsmen societies existing in Germany in 1920, 1,280 were 'production' societies. A small proportion of these, in Bavaria for instance barely a dozen, are pure production societies with a common workshop for their members. This is a form of Co-operation that is as difficult as it is advanced. To succeed a society must have a manager trained to business. This is rarely an easy matter, as most craftsmen prefer to work under one of themselves, and few have the necessary training. It is the same difficulty that was noted in connection with granary societies.¹ A way out of it is to have a member of the craft as a manager and a man trained to business as accountant, but only a large society can do this, and a large society of this kind is a formidable undertaking.

The crucial difficulty, however, is to induce members to work together for wages in a common workshop. 'A healthy egoism' says a recent report on Co-operation in Saxony 'is the mainspring of all economic progress.' The pure production society is a challenge to this doctrine. The battle between individualism and collectivism has still to be fought. In the farm and labour societies of Italy Catholic and Socialist are putting the issue to the proof. Meanwhile, there is enough natural human egoism left to make a pure production society in any country a difficult matter. Too often in Germany the

¹ Paragraph 70.

more intelligent and vigorous members have bought up their society and converted it into a company to their own advantage. The master craftsman, too, is apt to love his independence too well to sacrifice it to an ideal which restricts his liberty. He is at his best in the looser form of society just described, as he is used to working at home. To him the common workshop represents not greater freedom but less. On the other hand, to the foreman, accustomed to discipline and eager for a measure of independence, this type of society makes a stronger appeal, and when he is a member, it has more chance of success.

115. The Cabinet-Makers Society of Munich is an instance of this. It was founded in 1910 by 13 craftsmen who wished to free themselves from the shackles of the wage system. It made a bad start for three dissatisfied members deserted almost at once, and when the war broke out it nearly collapsed, as 12 out of 13 members were mobilized. Now, however, it has done so well that the original members are unwilling to add to their number, and have fixed the entrance fee at 3,000 marks (£15) and shares at 6,000, amounts that no ordinary craftsman can pay. In spite of this two new members were admitted last year and the total is now 14. Co-operatively this exclusiveness cannot be defended, but when by great effort a difficult and risky venture has been successfully launched, it is not in ordinary human nature to share the advantages so laboriously gained with those who have neither laboured nor dared. It is one of the dangers besetting all successful production societies that they are tempted to convert themselves either into a closed guild or into a company. The only remedy is to inspire man's 'healthy egoism' with an even healthier co-operative spirit.

Admission being restricted, it follows that non-members have to be employed. There are 15 or 20 of these and their position is precisely the same as that of the ordinary wage earner, except that they are employed by a society of their own craft instead of by the more alien firm. They are paid 50 pfennigs¹ an hour less than members, and have of course no voice in the management of the society. Where, too, a member gets 14 days' holiday a year on full pay, a non-member gets only from 3 to 6. Non-members have only once been out on strike. In the autumn of 1919, following the instructions of their semi-political leaders, they demanded that

A Cabinet-Makers Society.
(a) Its Constitution.

(b) Position of non-member Employees.

¹About a halfpenny.

a committee formed from themselves should have the entire distribution of work and wages, and that the manager's sole function should be to provide both. After three weeks they gave in and returned to work. The craftsman through his society is beginning to realise the difficulties of the employer. On another occasion, when for a time Bolshevism got its bloody hold upon Munich, six men armed with revolvers entered the workshop and ordered everyone to down tools on pain of being shot. This 'strike' lasted ten days.

All work is done in the society's workshop. This arrangement is readily accepted as cabinet-makers require too much plant to work at home. (c) The Common Workshop. A common workshop is therefore the only alternative to working for others. At first a small shop was hired. The present premises are more spacious and include a good show-room, where a considerable variety of well-made furniture of the usual solid middle-class pattern was on view. Of the 14 members three no longer work for the society. One is at loggerheads with it and the other two have employment elsewhere. Workmen are divided into two categories, the one getting 20 pfennigs an hour less than the other. In cabinet-making there is said to be no great difference between one class of work and another, except where intaglio work is concerned. The member who does this gets 70 pf. an hour more. The grading of the men is done by the two managers and is not difficult, as all work together and each man's work is known. Everyone works 46 hours a week, which is two hours less than the usual scale. The wage paid is the market rate and is between 9 and 10 times the rate paid in 1914.¹

At first the society used to sell its furniture through an association, but, as the manager said, good work will always sell. (d) Financial Position. Work was only undertaken to order, and this is still the case with 80 per cent. of it. There was once a loss of £125, and in 1916, when all members but one were away at the war, the balance sheet showed a deficit of £150. The society was saved by its reserve, which is another instance of the importance of this fund. There are three reserve funds. The first is the statutory reserve, the second a special reserve to support the first, and the third is for bad debts. In addition there is a large latent reserve, stock worth £2,000 being valued at only £150. The society owns nearly two-thirds of its working capital, and altogether its financial position is as sound as a bell. Dividend is not limited and last year 10 per

¹ For the three grades the average is 6.40 marks an hour against 0.70 paid in 1914; for Italy cf paragraph 183 (t).

cent. was distributed. As no one may hold more than one share, this is not quite so un-co-operative as it looks, though it would certainly be better to distribute profit in proportion to wages. At the start funds were obtained from a local co-operative industrial bank, which gave the society a cash credit account of £150. This was really insufficient, but members were keen to work as far as possible with their own capital, and somehow or other they managed to make it suffice. Though in several respects the society has deviated from strict co-operative principle, it represents an advance on the ordinary wage-earning system of capitalism, for employer and employee, working continually side by side, are in close touch with each other and better able, one would suppose, to understand each other's point of view.

116. Something must now be said about finance. At the outset craftsmen societies obtained substantial assistance from Government which, as we have seen, had a political end in view. Financial support of Urban Banks. Loans at a low rate of interest, combined with small free grants, were made to many societies, very much as was done in the case of co-operative granaries. The societies were also generously supported by the co-operative urban banks, whose chief object is the assistance of small industry. In many of these banks craftsmen form the nucleus of the shareholders. An important central bank¹ I saw in Munich was founded by a butcher. Its first president was a bookbinder, and a painter is now president of the committee. There are even banks formed for a single trade, such as the Bakers' Bank at Nuremberg, but they are diminishing as an urban bank needs more than one class of business to maintain it. There is no doubt that the craftsman requires his own bank or at least a bank that understands him. He is the peasant proprietor of industry, and, like his country cousin, his security being as much personal as real, he needs a bank which is prepared to take careful account of all his circumstances. This the large banks cannot do; nor are they so cheap, charging 7 to 8 per cent. where now the craftsman pays only 6. Moreover the craftsman is to some extent in competition with the interests represented by the larger banks. While, however, special banks are desirable, it is important that they should not combine banking and trade.² This point was discussed at length in regard to agricultural central banks, and the conclusion was reached that banking and trade should be separate.² The same holds good of urban banks. The Industrial central bank at Munich has power under its by-laws to trade, but it has never used it believing it

¹ The Bavarian Agricultural and Industrial Bank.

² Paragraph 38.

will be dangerous. It is probably a weakness in the weavers' central societies in the Punjab that they trade as well as lend.

117. I do not know the Punjab craftsman well enough to say how far what I have described is applicable to his more primitive conditions. At present the pure production society is probably beyond his reach and also his desire, but the fact that there are now 50 weavers' societies, and that societies have recently been started for dyers, blacksmiths and oilmen is of good augury for the future. Development would however be easier if, as in Germany and in Italy, there were urban banks to support the movement. These banks are the subject of a subsequent chapter.¹

¹Chapter 11.

CHAPTER X.—House-Building Societies.

118. One of the subtlest causes of the unrest produced by the war is the almost universal shortage of houses. The evil is by no means confined to Europe. It is, for instance, acutely felt in Bombay. In Italy and Germany the remedy is being increasingly sought in Co-operation, and in India effort is turning in the same direction.¹ Accordingly I took advantage of my stay in Bavaria to see how the problem had been grappled with there. Its formidable nature is sufficiently shown by the fact that in Munich alone, a town of 600,000 inhabitants, in spite of extensive building during the last two years, there are said to be still² nearly 10,000 families requiring housing accommodation. It is an interesting fact that the oldest co-operative house-building society in Munich was founded in 1871, and was the direct outcome of a similar shortage produced by the Franco-Prussian War.

The Housing Problem.

119. An almost insoluble complication in the present situation is the enormous rise in the cost of building, which is at least five times as high as it was before the war. Private building on an extensive scale is no longer possible. The highest rents that could be charged would not suffice to cover the cost. Government assistance is thus a necessity, and it is justified on the ground that both the shortage of houses and the prohibitive cost of building are due to the war, and that, as Government accepts financial responsibility for the latter, it must also accept it, partially at least, for the former. Logically applied to all the economic consequences of the war this would prove an awkward principle, but it serves well enough to justify the financial assistance which one Government after another has been forced to give to house-building since the war.

Necessity of Government Assistance.

120. Probably the best and most convenient way of giving this assistance is through co-operative societies, as then a large number of individuals can be helped with a single grant; nor is it difficult to form these societies, when on the one hand the need for houses is so great, and on the other State help is so tempting. It is not surprising, therefore, to find

Rapid growth of Co-operative Societies.

¹ There were last year (1920) 21 societies in Bombay. A beginning has also been made in Cawnpore and Lucknow.

² February, 1921.

that societies are springing up like mushrooms. Out of the 2,642 societies which existed at the end of 1920, 1,225 have been started since the war. Over 200 of these have been formed in Bavaria alone, which now has about 400 societies. Most of these are to be found in and around large cities like Munich or Nuremberg, but they also exist in the smaller towns and larger villages. I heard of one society in a village of only 1,700 inhabitants. This, however, is dangerous, as the local industry upon which such a society usually depends may some day be forced to close, in which case the society will be stranded. There are now roughly 100 places in Bavaria with societies, which is all the more remarkable as Bavaria is essentially an agricultural country. It is a striking illustration of how much Co-operation owes to necessity. Many of these societies, it is true, have not yet started building. Some probably never will, while others are not expected to live very long.¹ In so quick a growth there must be tares as well as wheat. But the wheat is good, and the movement as a whole is vigorous, and it is fortunate in having at its head men of capacity and enthusiasm.

121. In Bavaria, since the war, nearly 8,000 tenements of from 2 to 4 rooms each have been built by co-operative societies. Without lavish Government advances, amounting in 1919 alone to nearly £500,000,² this achievement would have been impossible. These advances are not intended to do more than pay for the unremunerative part of the cost of building, that is to say, so much of the expenditure as cannot, at present at least, be covered by rent. No interest is charged and repayment is contingent on future rental values. Rents are subject to control, and preference must be given to large families and widows, or to those with special claims arising out of the war. Further, in the event of sale, Government retains a right of pre-emption. In 1919 as many as 193 societies received grants. Half the expenditure was charged against Imperial revenues, and the other half divided equally between the Bavarian Government and the municipalities concerned. Last year the contribution of the latter was increased to one-third of the whole.

When Government loans have to be made, it is probably better not to make them to each society direct, as they may weaken the spirit of self-help. A sounder plan is to use a central bank as an intermediary. This has been done at Munich,

Government Assistance—
(a) To the society direct.

(b) Through a Central Bank.

¹ In 1920, 73 societies were dissolved.

² 100 million marks.

where £25,000 have been placed at the disposal of the House-Building Societies Bank, which was founded in 1918, to finance its members, which are all House-Building Societies. Thanks to this assistance the bank is able to issue second mortgage loans up to 90 per cent. of value. Only 6 per cent. is charged, which is no more than the rate for a first mortgage.

Assistance is also given through an official Development Commission,¹ whose main object is land improvement and the erection of small dwellings. This body, too, makes second mortgage loans up to 90 per cent. of value and charges only $4\frac{1}{2}$ per cent. A condition of all loans is that they must be guaranteed by the municipality concerned. The loans are repaid by annual payments of equal amounts calculated to cover interest charges, amortisation at the rate of $\frac{3}{4}$ or 1 per cent., and a commission of $\frac{1}{8}$ per cent., which the municipality retains to form a reserve fund against possible loss.

State help thus takes three forms—

- (a) direct grants to individual societies to cover the unremunerative part of the cost of building,
- (b) advances to the House-Building Societies Central Bank, and
- (c) second mortgage loans by the Development Commission.

122. The justification for the first of these methods admittedly lies in the peculiar circumstances produced by the war. For the other two there is more to be said, and it may be doubted whether, even in normal conditions, the average house-building society can be started without some kind of financial assistance. Workmen, clerks, employees and petty officials, who form the backbone of these societies, are rarely able to raise unaided the large amount of capital required for so costly an undertaking as house-building. Occasionally men of public spirit may be willing to risk their money in an advance to a new society with no better security than the unproved integrity of its members. Or a local tradesman may be persuaded to do the same in return for the exclusive custom of the members of the society. Or a society, with more patience than can usually be expected, may be prepared to wait till enough members have joined and sufficient share capital is subscribed to pay for a building site, which can then be mortgaged. Or, finally, it may be possible to acquire a site from a

Other forms of assistance.

¹ The Landes Kultur Renten Anstalt.

landlord who is willing to accept a mortgage in lieu of cash for all but a small part of the price. But a danger lurks in this, as a number of societies have been formed by unscrupulous men, whose only object was to sell their land to the greatest advantage. The oldest society in Munich, to which I have already alluded, was only able to dispense with State help, because it obtained a loan of £6,000 from a group of sympathizers. Amongst the latter were a number of large factory owners who desired good housing for their workmen. In the future this form of assistance should perhaps be more readily available than it has been in the past. In any case, whatever form it takes, some measure of financial support will usually be required at the outset. At the same time, it should be remembered that self-help is as essential to success in this form of Co-operation as in every other. Government assistance should, therefore, only be given when clearly indispensable, and should be withdrawn at the first possible moment.

123. With house-building societies even more than with most co-operative enterprises 'c'est le premier pas qui coûte.' But once a good site is obtained—experts lay great stress on wise selection—and building can be started, capital is no longer a difficulty, as there are plenty of mortgage banks that will advance money as soon as a single storey is complete, and so on, storey by storey, till the whole building is finished. In India the absence of mortgage banks is an added difficulty and may necessitate more assistance from Government than would otherwise be necessary.

124. There are two kinds of house-building societies, some building to let and others to sell. At present the former greatly preponderate. Out of the 180 societies which belong to the most important Audit Union in Bavaria, only 5 or 6 sell houses to their members. At the same time the desire for independence, all the keener for the war, has become so strong that many, who were content in the old days to rent a flat, now wish to have a house of their own. Many of the new societies have therefore been formed for this purpose. Older societies, too, are following suit. One of these, a society in Munich, which will be shortly described, has recently purchased a site, on which it proposes to build 54 houses to be sold to members. Each house will have from 4 to 6 rooms and a strip of garden. Everything will be done to make purchase easy, for ownership will pass on payment of only 25 per cent. of the total cost, a mortgage being taken for the balance. Thus, if a house costs £400, ownership

Advantage of Mortgage Banks.

Societies for the purchase of houses—

(a) Their increasing popularity.

can be acquired for £100 in cash, and the balance can be gradually paid off in 15 or 20 years. In some societies ownership passes on payment of as little as 10 per cent.

In most cases it is a condition of sale that the purchaser remains a member of the society after purchase, and it is an invariable rule that, in the event of sale, the society retains a right of re-purchase for the original price less depreciation. This is known as the Ulmer system. The same right may be enforced if payment is delayed or if house and garden are not properly maintained, or if any of the conditions of sale are broken. Amongst the latter is always a stipulation that the building shall be maintained as a small dwelling house, as it is no object of these societies to facilitate the acquisition of large houses, nor, in view of the society's right of re-purchase, is it possible to allow additions which would materially alter the character of the house.

Naturally societies of this kind require more capital than those which build only to let. On the other hand, people who are prepared to purchase can usually take larger shares than those who can only afford to rent. It appears that before the war 100 members subscribing £15 each were able to build 20 small houses. These could then be mortgaged and more houses built with the proceeds, and the process could be repeated till every member had his own house. Should the idea of a garden city near Lahore mature, a similar system might well be tried.

125. In House-Building Societies there are two fundamental rules which distinguish them from every other form of house-building enterprise. Rents cannot be raised without the sanction of a general meeting, and no one who is a member can be evicted, as long as he behaves himself. In these two rules Co-operation is seen at its simplest and at its best. But every rule has its disadvantage. Rents have had to be raised since the war to meet the greatly increased expenditure, and though the case was clear, it was often difficult to get a general meeting to agree to it. The right not to be evicted is also occasionally a source of trouble. In one society I saw, the right used to be formally safeguarded in the agreement made with the tenant, but it led unsatisfactory tenants to believe that they could do what they liked with their dwellings. The clause had therefore to be omitted. Unsatisfactory members are, of course, liable to expulsion, but this is rarely enforced. A member may, however, be evicted from his dwelling without being expelled from the society, and in the interests of the society and its property this is a power which should not be too closely

restricted. Tenants who do not pay their rent can no doubt be sued, but distraint is not always effective, as relatives, with that touch of nature that makes the whole world kin, are apt to turn up with the bailiff and claim as their own any furniture suitable for attachment.

126. The most recently formed societies owe much to the Audit Unions and Statistics. the Audit Unions which have been formed for House-building Societies, as for every other kind of co-operative society in Germany. There are three in Bavaria alone, and while their main function is audit, they also act as guide, philosopher, and friend to their affiliated societies, steering them through their difficulties, advising them on their buildings (the largest Union maintains two architects) and protecting their interests.

Figures are usually dull, but the following extracted from the annual report of one of the Bavarian Unions for 1920 may be of interest :—

Average Membership of 111 societies (varying from 7 to 2,000)	...	...	183
Average number of tenements in 57 societies ($\frac{3}{4}$ of these have 3 or 4 rooms; $\frac{1}{4}$ have a garden)	...	...	120
Average rent is about	...	...	Rs. 3 ¹ a month.
Total Mortgage Debt (111 societies)	...	...	£200,000 ²
Paid-up Shares and Reserve (111 societies)	...	...	£50,000
Deposits (41 societies)	...	...	£30,000
cost of management and upkeep of property.	...	...	37 per cent. of the rent roll (the 3 years' average is 29 per cent.).

It would be interesting to compare these figures with the corresponding figures for the 21 societies in Bombay. That it is not easy to make both ends meet is shown by the fact that, of the 111 societies referred to above, 30 per cent. worked at a loss.

Miscellaneous points. 127. The following minor points may be noted :—

(1) Before the war it was an accepted principle that a society should own at least 10 per cent. of its working capital. The high cost of building has now made this impossible.

¹ 30 marks.

² 40 Million marks.

(2) 1 per cent. per annum should be written off for depreciation on buildings.¹ A hot climate like India will doubtless demand a higher percentage.

(3) Shares should be as large as possible, but no one should be allowed to hold more than a very limited number, as the sudden withdrawal of several large share-holders may prove a serious embarrassment. It might be advisable to follow Italian practice and withhold the right of withdrawal, except with the sanction of the committee. In any case the right should be subject to at least a year's notice. The German law allows a maximum of 2 years.²

(4) It is advisable to build solidly to avoid heavy maintenance charges.

128. It will give a clearer idea of a German house-building

A Typical Society—

(a) Constitution.

society if two typical examples are described. The first is a society in Munich, which started in 1908 with 200 members and now

has 700. Most of these are petty officials, municipal employees—tramwaymen, firemen and the like—and workmen employed in a neighbouring locomotive factory. A varied membership is an advantage, especially when it contains a nucleus of small officials, as the latter are stationary in habit, take a pride in their dwellings and set a high standard to their fellow-members. The good Trade Unionist, too, is liked, as he knows his own mind, and though critical is thoroughly businesslike. In this society each member takes a £5 share which he is given 4 years to pay. Liability is limited to the value of the share, and in passing it may be noted that unlimited liability is very rare³. Dividends may not exceed 5 per cent., and all surplus profit is carried to reserve.

The society made a false start. Its promoters were interested

(b) A false start.

in the building site, which was therefore acquired at an exorbitant price. Graft also

passed over the building contracts, which were correspondingly unfavourable. Consequently in its second year the society nearly foundered. Funds were exhausted, and obligations could only be met by repeated mortgages. This went so far that one block of buildings had eventually to carry no less than 11 mortgages. All who had been employed in the building operations, builders, decorators, plasterers, plumbers, joiners, carpenters,

¹Cf. footnote to paragraph 75 (c).

²See Appendix (b)

³In 1919 there were only 8 cases.

upholsterers, etc., had to accept a mortgage in part payment of their work. After a succession of stormy meetings and the withdrawal of half the members, the undesirable elements were expelled and a new management elected. The remaining members then pulled themselves together; additional share capital was raised to pay off an almost overwhelming debt, and now, to the lasting credit of all concerned, the society is one of the best and strongest in Munich.

It has six blocks of buildings with 350 tenements of 2 or 3 rooms each. The last block to be built is a remarkably handsome building, and its rooms, though small, are airy and well built. Rents run from not more than 4 to 7¹ shillings a month. In the circumstances it is not surprising that there is a waiting list for accommodation of over 300 members, most of whom have joined since the war. The society now owns £3,500 of capital (shares and reserve), and property valued in its balance sheet at £12,000, which is probably far below its present value. Small loans are made against shares and deposits. The latter, which are only accepted from members, amount to £1,700. A bakery and a dairy are also maintained to supply members with cheap bread and pure milk, and they are run at a profit.

The management consists of a committee of two, one of whom is the manager and the other the treasurer. They are paid, respectively, £15 and £6 a year. In a large society the committee always receives either salary or bonus. In the smaller societies practice varies. Owing to the high cost of living honorary work is becoming increasingly unpopular, nor is it always so reliable as paid work. In addition to the committee there is, of course, the board of supervision, which not only meets once a month but is obliged under the by-laws to make six impromptu inspections a year. Every two months there is a general meeting which is usually attended by about 100 members. So many general meetings are unusual, and they are a sign of the strong co-operative spirit of the society. They are of great advantage, as they keep the management in touch with the members and give the latter a personal interest in the working of the society. In 10 years, since the initial purge, only 3 members have had to be expelled, and not many more have had to be evicted. The society represents a remarkable achievement, and in talking to its directors it was impossible not to feel how much the members owe to the distinterested devotion of those at its head. Without such men Co-operation must long ago have disappeared.

129. The second society to be described is the one already referred to as the oldest in Munich. This year it will keep its jubilee. It has already been related how at the start it was financed by a group of private sympathizers, amongst whom was the King of Bavaria. With the help of an initial loan of £8,000, which for 7 years was free of interest, a good site was found and building started. The site selected was near the factories, for whose employees the society was primarily intended. It was proposed that members should purchase instead of renting, but the scheme fell through owing to the overproduction which followed the great demand for houses in 1871. This led to a general fall in rents, whereupon members refused to buy. Many left the society, some fearing it would fail, others because they were unemployed, while not a few had to be expelled for non-payment of rent. A number of tenements stood empty, and while expenditure continued as before, income shrank. For 2 or 3 years the society was in low water. But gradually, thanks to the staunchness of the more loyal members, who subscribed as much share capital as they could, and to the sale of a plot of land at a good figure, financial equilibrium was restored, and a better and more dependable class of member, principally postal and railway officials, was obtained. This is a more stable class than Labour, which is at the mercy of every fluctuation of trade and industry.

Having weathered the storm, the society prospered and now has 234 dwellings of all sizes, from one room only up to a maximum of six. 150 tenements have one or two living rooms, and in addition a kitchen and a store room. In the latest dwellings a bath room takes the place of the store room. The houses, which are valued at about £10,000 are all mortgaged to a local mortgage bank, at from 4 to 5 per cent. up to 60 per cent. of their value. Repayment of the mortgages extends over 52 years. Incidentally the society acts as a savings bank for its members, and has over £1,500 of deposits. Before the war 50 per cent. of the dwellings were occupied by non-members, who were charged 10 per cent. more than members. Now, however, owing to the shortage of houses, there are very few non-member tenants left. The usual principle is followed of only letting to non-members when all members have been accommodated. A non-member can always be given a month or a quarter's notice to quit. The two societies that have been described are of special interest as they show not only what can be achieved, but also how difficult lasting achievement is without a large measure of the true co-operative spirit.

CHAPTER XI.—Urban Banks.¹

130. India with 90 per cent. of her population living in villages has naturally concentrated upon the *village bank*. But now the movement is spreading to the town, and the *urban bank* is arising. Burma already has well over 100, and in the Bombay Presidency capital and deposits total nearly a crore (£1,000,000). The middle class, which the "Pax Britannica" has almost created, is beginning to realise that it needs banking facilities as much as the small proprietor. At present it is difficult for the successful lawyer or contractor to find a safe investment near at hand for his savings, nor is it easy for the small shopkeeper or artisan to obtain at a reasonable rate the modest loan that business often requires. These are the two virtues of the co-operative urban bank. Deposits are taken, however small, and loans are made however modest; and confidence is inspired because the object is not to make a profit, but to perform a service. Moreover, India presents an almost unrivalled field for co-operative banking. In Italy and Germany, as we shall see, commercial banking is now so widely developed that the co-operative urban bank is in danger of losing its position. In India on the other hand commercial banks are few and far between. As recently as 1916,² even including Burma, its banking facilities were less than those available in Ireland before the war. The opportunity that this offers is obvious and should be seized before the field is captured by others.

131. The co-operative urban bank arose in Germany in the middle of the last century, but quickly found its way into Italy, where urban banking has always flourished, ever since banking began there 800 years ago with the control of the Papal treasure. I shall deal first with the Italian type, commonly known as the "Banca Popolare" or People's Bank, as it is the type to which most attention was directed. The first People's Bank was founded by Luigi Luzzatti at Milan in 1866, and they have since spread all over Northern and Central Italy. They now total about 800, and vary in size from a bank like that at Novara, which has 46 branches and agencies scattered over an area extending from Milan to Turin, to the bank situated with its single office in a small market town. Though predominantly

¹ For a detailed account see Wolff's "*People's Banks*."

² In 1916 British India and Burma had only 71 head offices and 267 branches and agencies. Japan with $\frac{1}{4}$ of the population had 2,143 banks. Findlay Shirras, *Memoranda on Banking in India*. Ireland before the war had 242 centres with permanent branches and about as many more sub-branches (not open every day)—*Report of the Departmental Committee on Agricultural Credit in Ireland*, 1914.

urban they do a large business with farmers, and in 1903, the last year for which statistics are available, nearly £20 millions were advanced to agriculture.¹ Many of the branches and agencies of the bank at Novara are in townlets or large villages where the bulk of the business done is agricultural, and at Ravenna over 50 per cent. of the bank's whole business is said to be with farmers. The small farmer and the small manufacturer and trader are in fact the three largest classes served by People's Banks. But membership is essentially varied, and includes all categories from the large farmer and manufacturer to the artisan in the town and the field labourer in the village. 124 schoolmasters belong to the bank at Novara, and over 1,000 public and private employes to that at Bologna. Anyone can become a member by buying a share; and as this is never worth more than 100 lire and sometimes costs as little as five,² poverty has to be extreme to operate as a bar.

132. The People's Banks work mainly with deposits. In 1919 these amounted to £18 millions,³ which shows that they were trusted. Last year the bank at Novara alone had over £3 millions. To a large extent these deposits are an accumulation of comparatively small sums. The bank at Venice, for instance, in 1920 had as many as 4,219 depositors with an average of less than £75⁴ each. Every form of banking business is undertaken, and this is considered necessary to resist the pressure of the commercial banks which is increasingly felt. Bills are discounted and advances are made through cash credit accounts or against securities, goods and articles of value. In the larger centres the discount business plays the most important part. In the Novara bank, in 1920, 84 per cent. of the advances made were of this character. This suggests that the commercial side of business is becoming more important than the co-operative, the object of which should be to finance the more modest enterprises.

133. There is one type of enterprise that has unquestionably benefitted from People's Banks, namely co-operative societies. Wherever one goes in Northern Italy, it is the People's Bank that again and again has given the young society its first

¹ *International Review of Agricultural Economics*, March, 1920.

² Worth before the war £1 and 4 shillings respectively. Till recently no one might hold more than 5,000 lire of shares, but, now, owing to the depreciation of the currency and the consequent need for more share capital, the limit has been raised to 20,000 lire or about £250. For other forms of co-operative societies the limit is still 5,000 lire.

³ 1,424 million lire.

⁴ £3,000 lire

'leg up' into the saddle. The bank at Venice recently advanced the best part of £4,000¹ to a new Farm Society to buy land. The bank at Novara lent £2,500 to start a co-operative manure factory, which now turns out 9,000 tons a year. In neither case was security taken, the moral guarantee of the committee being considered sufficient. At Ravenna in 1919 the bank loaned over £50,000 to Labour societies, and more recently, to relieve the shortage of houses, it advanced £1,200 to a house-building society at only 3 per cent. These are merely a few out of innumerable instances. There is probably no form of co-operative enterprise which does not owe something to the People's Banks, and to some small extent they have been able to fill the gap caused by the absence of central banks.²

134. They must not, however, be confused with the 'central bank.' The two types are quite distinct, and the main distinction is that, whereas a central bank advances only to its affiliated co-operative societies, a People's Bank deals with individual and society alike. Another important difference, so far as Germany is concerned, is that in the central bank membership is almost entirely confined to societies, while in the People's Bank nearly all the shareholders are individuals.

Similarly the People's Bank must not be confused with the village bank. It is not uncommon to see (b) The Village Bank. the Punjab village banks, simply because they have shares, described as 'Luzzatti Banks.' The two are as different as town and country. The one is restricted to a village or two, the other may embrace a whole district and is almost always predominantly urban. In the village bank liability is unlimited, in the Luzzatti bank limited. The former will have 20 or 30 members, the latter may have several thousand. Novara has nearly 9,000, Milan over 26,000. It would be as appropriate to compare the bullock cart to the motor car as the Punjab village bank to the People's Bank.

135. There is one point in which the People's Bank is weaker than either the German central bank or the Punjab village bank. I have already quoted Signor Luzzatti's saying that a co-operative society should always be independent but never

Defects—
(a) Their Isolation.

¹ 300,000 lire.

² Cf. paragraph 43.

isolated. Isolation is the weakness of the People's Bank. The German central banks are leagued together in unions and federations, and the village bank both in Germany and India is affiliated to a union or central bank, or to both; but, apart from an association at Rome which gives information but exercises no control, the People's Banks throughout Italy stand alone. A federal bank was founded at Milan in 1914 to act as a balancing centre for their business, but bad management brought it to an early grave, and now the bank at Novara is trying to take its place. In finance support is necessary, and in Germany, as we shall see shortly, this support is obtained from two large banks. The isolation of the People's Banks is another instance of the weakness of organization that we have so often had occasion to note in regard to Italy in the course of this report.

They have a further defect which is a serious blemish upon their co-operative character. Dividends are not limited and consequently their shares appreciate in value.¹ Last year one of the best People's Banks in Italy, the bank at Bologna, was selling its 60 lire shares at 152, or over $2\frac{1}{2}$ times their value. The Ravenna bank was worse. Its shares had multiplied four times in value. This was a feature of every bank I visited, and the practice is said to be universal. Even the shares of the four-year-old bank of Venice have already appreciated from 25 to 30 lire. The amount of the premium to be paid on a share is not left to the ebb and flow of the market, but is fixed once a year by the directors, who divide the reserve by the number of shares and fix the premium accordingly. The practice is defended on the ground that the reserve belongs as much to the shareholder as his shares, and that as the one increases in amount, so must the other in value. This defence might be accepted, if like a commercial concern, the object of a co-operative bank were to make profit, but this is not the case and every good co-operator will agree in condemning it, if only because it must tend to exclude the poorer members of the community. It is a thing like this that gives a certain point to the scorn felt by the socialist co-operator for the People's Banks, which he regards as the embodiment of his "bête noire," the middle class. Undoubtedly both in Germany

¹ In 1919 the Novara bank distributed 14 per cent.

At Ravenna dividend is limited to 6 per cent., but surplus profit is distributed in the form of shares. The bank was founded in 1886 with 25 lire shares. In 1911 every shareholder was given from reserve an extra share for every share held, and in 1920 all shares were doubled in value, again by adjustment against reserve, so that an original share of 25 lire has now grown into two shares of 50 lire each, upon both of which 6 per cent. can be paid. This means that the maximum dividend is now 24 per cent. So do even co-operators adjust their ideals to their desires

and Italy the urban bank belongs more to this class than to any other, and the pressure of circumstances, which in all industrial countries is now squeezing the small man out of business,¹ tends to accentuate this. Those who can lend, and those who can offer good security for a loan (character by itself is not usually sufficient), are more and more to be found in the middle classes. With such therefore a bank must mainly deal, and to a co-operative bank this could only be a reproach if its doors were not wide open to the humbler members of *all* classes.

136. That the man of modest means is welcome is shown by the bank at Bologna. In 1919, two-thirds of its loan transactions were for sums of £12 or less. 20 per cent. indeed were for less than fifty shillings, and about one-third were made to workmen and day labourers in sums which averaged little more than £2 each. A good instance of assistance to the minnows of business comes from Venice. When war broke out, tourist traffic abruptly ceased and half the gondoliers of Venice were thrown out of work. In time the city itself was deserted, and for several years the gondola rotted unused. When at last peace came and the civil population returned, most gondolas had to be repaired and some had to be replaced. But the gondoliers had no money. The local People's Bank came to their rescue and advanced £7,500 at 6 per cent. and once again the canals echoed to the old familiar cries.

But it is not only by loan that the People's Banks benefit people of modest means. Every bank has a savings deposit branch and sums from one lira upwards are accepted, which carry a slightly higher rate of interest (generally an extra $\frac{1}{2}$ per cent.) than an ordinary deposit. The amount that may be deposited in this way is naturally limited,² but at Novara it is as much as 10,000 lire. In this bank savings deposits amounted last year to as much as 37 million lire, which was one-seventh of the bank's total deposits. At Venice these savings deposits are said to be as advantageous to the bank as they are to the depositor, as they are never withdrawn. To make them popular the money-box, which can only be opened in the bank, has been introduced, and though the bank is a new one, 2,500 are already in use. These savings deposits are a good instance of the way co-operative banks enable even the poorest to take a part in the financing of commerce and industry.

¹ Cf. paragraph 113 (d).

² The amount that may be deposited in one week is also limited. At Ravenna for instance it is 100 lire (25 shillings).

137. I propose now to say something of the actual working of the People's Banks. Owing to their isolation exact general information is difficult to get. What follows, therefore, is the result of visits to four representative banks, Novara, Bologna, Venice and Ravenna. Novara is the second largest in Italy, Bologna one of the oldest and Venice almost the youngest. The fourth, at Ravenna, was chosen because it is of medium size and operates in a city which has many of the features of an ordinary Indian town. The headquarters of a district, but not very modern nor yet entirely mediæval, it has a few factories, a port as sleepy as age can make it—it is over 1,500 years old—and a population of 64,000, so compactly housed that the open country still comes up to the gates of the city. In one respect, however, it is as advanced as any town in Italy, for, as we shall see later, Co-operation is more developed in Ravenna and its neighbourhood than anywhere else in the peninsula with the exception of Reggio Emilia. Venice needs no description. Bologna is a large modern town, with a kernel of old buildings, at the foot of the Apennines and the home of Italian socialism. Novara, famous for its battlefield, is a provincial country town whose prosperity, as with so many Indian towns, is bound up in the prosperity of the country round it. Situated on the edge of the Lombard plain, the most fertile tract in Italy, it recalls Batala, and like Batala on a clear day it has a superb view of the mountains whose rivers make its soil so rich.

The bank at Novara with its 8,847 members is much the largest of the four and operates over two districts. Bologna has 5,600 members and the other two nearly 2,000. Both at Novara and Bologna the small man preponderates to the extent of 80 per cent. in the former and of 90 per cent. in the latter. Bologna, as the following figures show, is a good instance of the variety of membership that every good urban bank should have :—

Large Landowners	...	64	'Capitalists'	a n d	
			bankers	...	10
Small Landowners	...	1,008	Merchants and	Factory	
			owners	...	33
Large Tenant Farmers	...	11	Small Traders	...	2,273
Small Tenant Farmers	...	91	Professional Men	...	524
Field Labourers	...	11	Secondary School Teachers		34
Co-operative Societies	...	13	Elementary	School	
			Teachers	...	157
Wage-earners	...	337	Clerks, officials, etc.	...	1,006

133. It can be imagined that, in dealing with so various a clientele, the advance of money is not an easy matter. Some banks keep a 'Castelletto' or register of maximum credit, in which the maximum amount that may be loaned to each member is recorded. Other banks, for instance, Bologna and Ravenna, prefer to decide each case on its own merits, believing that it is the only way to ensure both discrimination and caution. The manager of the bank at Bologna thought the use of the "castelletto" encouraged a tendency to advance up to the maximum limit as a matter of course, whereas under the other system every operation had to be closely scrutinised. At Venice the castelletto is maintained by one committee and loans are sanctioned by another. The castelletto, too, is revised at least once a quarter. Where this system is in force there cannot, I think, be any serious objection to its employment.¹

In all four banks no loan can be made or bill discounted without the sanction of a committee appointed for the purpose, which meets at least once a week and in some cases daily. At Ravenna loans are occasionally made by the director, but in that case he is responsible if default occurs. At Bologna the manager is empowered to suspend, but not to make a loan. This is a rule that should be unswervingly applied in India.

In determining the amount that can be advanced character is considered. In the business orders of the Novara bank stress is laid on a man's capacity 'to carry an operation through to a good conclusion,' and upon his industry and thrift and 'above all his honesty.' With three exceptions security, generally personal, is always taken. Normally two sureties are required, and one of them must be a member.² The exceptions are loans to co-operative societies, loans against shares and 'loans of honour.' The first is only a partial exception. At Venice no security is taken, but at Novara it is only dispensed with when the society is unusually reliable; otherwise a guarantee is taken. With regard to the second exception, members are generally allowed to borrow against their shares up to three-fourths of their value, but the amount advanced in this way is insignificant.³ In India the practice had better be avoided.

¹ At Novara maximum credit is fixed for an individual at 20 per cent. of the estimated value of his property and for a co-operative society at 50 per cent. of its share capital and reserve, unless it is unusually experienced in which case more will be given. If either individual or society deals with another bank no further advances will be made.

² One co-operative society may act as surety for another.

³ At Novara only £6,000 out of £1 million.

Of even less importance is "the Loan of Honour." Bologna is the only one of the four banks to main-

(d) The Loan of Honour. tain it. In 1919 about £3,000 were advanced, mostly to poor working men. Loans are made to members and non-members alike, but no loan may exceed 300 lire (about £4). The first 100 lire are free of interest and only 3 per cent. is charged on the rest. Honesty of character is the sole security, and to ascertain whether an applicant has the necessary qualification there is a special committee, chosen from people in touch with the poor, to enquire into the circumstances of each case. It is characteristic of the bank at Bologna that it still maintains this most humane element in its business. Even if the amount advanced is small, it is a constant reminder to the bank of its ideals.

Mortgage security is rare, and two of the four banks do not accept it at all. It is in fact unsuited to an

(e) Form and Renewal of Loans.

urban bank, as it ties up money and is difficult to realise. Most loans are secured in the first instance by promissory notes (cambiali) in the form of a bill of exchange, and though, nominally, repayment is due in four or at most six months, renewal is invariable, as long as one-tenth¹ of the loan is repaid and the security continues good. Moreover, renewal will be repeated again and again on the same conditions till the loan is finally repaid. This usually takes about 3 years. It is therefore wrong to suppose that an urban bank can only make loans for a few months, and that consequently they are of no use to agriculture. Even the large joint stock banks in England will, if necessary, make loans for 5 or 10² years.

Thanks to this system of renewals, upon which, it seems, as much reliance can be placed as if the fact

(f) Loans to farmers.

were specifically stated in the promissory note, a People's Bank can be as useful to a farmer as to a trader.³ At Venice loans are made on precisely the same conditions to both, except that in the matter of repayment a farmer is treated with a little more indulgence than a trader. As the director said, a farmer's honesty is 'fortissimo.' At Bologna a loan to a farmer is normally only renewed.

¹ The Novara bank requires one-fifth.

² It is a fiction of modern banking that joint stock banks do not make long period loans, i.e., loans for over a year. It is true that they will not be made for more than 6 months or a year in the first instance, but if the security continues sound they will be renewed again and again. In this way loans may run on for 20 or 30 years.

³ The advantage to a bank of renewal is that the position of the applicant and the value of the security is periodically reviewed, and if either is unsatisfactory renewal can be refused and the loan recalled. Actually, as even London bankers admit, it is very difficult to recall a loan. Pressure can, however, be applied to have the debt reduced.

once, *viz.*, after six months. Crops in that district are so varied and so generally insured, that a loan can almost always be repaid in a year.

As in Germany, the cash credit account is becoming increasingly popular. Last year £6 millions were paid in and out of the Novara bank in this way. Accounts are secured by a promissory note which is renewed every six months, and once a quarter every account is scrutinised, and if not properly operated it is closed.

(g) The Cash Credit Account.

Credit is occasionally allowed to people who are not members. Over 50 per cent. of the business at Novara is with non-members who pay the same rates as members. This very undesirable practice is justified on the ground that it may lead clients to become members. The other three banks, with unimportant exceptions, give no credit at all to non-members, though of course they discount their bills.

(h) Dealings with non-members.

Default appears to be rare. At Venice no one has yet had to be sued. At Ravenna not a penny has been lost for 10 years. At Novara last year only £1,200 were lost out of a total of £6 millions advanced, and in six years there have been but three cases in which shares have had to be sold for default.

(j) Defaulters.

139. These banks are managed and controlled like every other co-operative society in Italy, that is to say they have a committee mainly consisting of business men, and a board of five 'Syndics' corresponding to the German board of supervision. In only one of the four banks (Ravenna) is the committee honorary. At Bologna and Venice members get a few shillings for each sitting, but at Novara 10 per cent. of the profit, which in 1920 amounted to Rs. £55,000, is distributed amongst the many headquarter and branch committees maintained. We have already seen how increasingly difficult it is even in Germany to secure honorary management, where much work is entailed,¹ and in all these banks membership of committee is no sinecure. At Novara each member in turn attends the banks daily to supervise its working. At Ravenna, where the committee is a body of 24 men, four take it in turn to serve on a sub-committee for a week to sanction the necessary credit operations, and meet twice a week for the purpose. At Bologna the discount committee meets daily. It is a mistake, however, as is so often done in Italy, to give the committee a percentage

Management—

(a) The Committee.

¹ Cf. paragraphs 112 (7) and 128 (d).

of the profits, as it is a temptation to swell them unduly, either by speculative enterprise, or by insufficient depreciation allowances, or even by adjustment of the balance sheet. The Excess Profits Tax has shown that the latter is not very difficult. Members of the committee should generally be men of substance who will not require to borrow. At Novara they are all required to hold the maximum number of shares, and there is a rule that any member failing to attend three meetings without excuse shall be removed—but there always appears to be excuse.

Opinion varies as to the value of the 'Syndics.' If they perform their duties they are admittedly useful. At Novara they always attend the committee meetings. At Ravenna once a year they check the title deeds, securities and promissory notes to see if they tally with the entries and the different registers. But on the whole they are not very active and this, it may be noted in passing, appears to be the case throughout Italy.¹

One general meeting is held a year. As with most large societies attendance is poor. At Venice about 100 out of 1,700 come, at Ravenna 50 out of 1,800. Bologna is perhaps the best in this, as in other respects. In 1920, 448 out of 5,599 attended.

140. The genesis of a People's Bank is well illustrated by the bank at Venice, which was founded in the middle of the war. Funds were raised by shares (25 lire each) and deposits, the latter made by well-to-do members who wished to give the bank a start. A cash credit account of £80,000 was secured from two leading commercial banks which apparently demanded no security, relying entirely upon the character of the bank's directorate. For two years no dividend could be paid, and after the disaster at Caporetto the bank had to fly from a deserted city to Rome where it remained two years. It now has four branches, each with its local committee, over 4,000 depositors, and more than £3 millions² on deposit. Its members have increased from 130 to 1,700, and dividends of 8 per cent. are distributed. All of which has been achieved in four years. It is in fact a singularly encouraging example to those who would start urban banks in India. But they should remember that from the start the bank at Venice had a highly competent manager. In banking, as in every other form of co-operative

Genesis of a People's Bank.

¹ See also Appendix (e)

² 25 million lire.

enterprise, the manager is the pivot of success. Even in Germany a number of the earlier urban banks failed, because their managers were dishonest or incapable.

141. Remaining points to be noticed in connection with People's Banks are :—
 Miscellaneous Points.

- (1) The ordinary commercial market rate of 7 to 8 per cent. is charged for loans, and as fixed deposit rates run from $2\frac{1}{2}$ to $5\frac{1}{2}$ per cent. (according to period), the margin for working expenses, reserve and profit, is about 3 to 4 per cent. which is considerable. At Venice only 6 per cent. is charged for loans up to 100 lire (25 shillings). Compound interest is always charged on unpaid accounts. Though not very co-operative, this is also frequently done in the German urban banks.
- (2) The rate for deposits at call was $3\frac{1}{4}$ per cent. in three banks and 2 per cent. in the fourth. At Novara not more than £120¹ may be uplifted at sight, two days' notice are required for £300 and 10 days for larger sums. Some such limit would be useful in India.
- (3) The issue of "buoni a scadenza fissa," bonds for a fixed period, which are an original feature of People's Banks, was suspended during the war but has since been renewed. They are issued for periods varying from six months to two years, and carry a fixed rate of interest. They are simply a device to raise money for a longer term than the deposit at call. They differ little from the fixed deposit, and were introduced in the first instance because the latter was unpopular. Now, however, treasury bills are said to be preferred and in any case the amount they bring in is insignificant, at Novara for instance only $2\frac{1}{2}$ million lire against deposits of 266 millions.
- (4) As in the German co-operative banks, the maximum amount that may be advanced to any individual by the discount committee is always fixed. At Bologna it is £2,500. In the Novara Bank it is £25,000 at headquarters, and for the different branches it varies from £60 to £600.
- (5) Each branch of the Novara Bank has its own discount committee to sanction loans. Accounts are submitted to headquarters once every 10 days.

¹ 10,000 lire. At Venice the maximum is £60.

(6) Taxation is heavy. In 1919, Novara had to pay £37,500¹.

142. If these four banks are typical, the financial position of the People's Banks is sufficiently strong. Only at Venice is the reserve comparatively small. At Novara and Ravenna it is maintained at 50 per cent. of the share capital; at Bologna it is $1\frac{1}{2}$ times as large. A fair ratio, too, is maintained between share capital and reserves on the one side and deposits on the other. For the four banks the average is 11 per cent., which compares well enough with Germany, where the ratio for 871 Schulze-Delitzsch banks in 1918 was $13\frac{1}{2}$ per cent. But it must be remembered that Schulze, the founder of the urban movement, thought that the ratio should be as much as 25 per cent.² For the moment, however, owing to the great depreciation of currency in Italy and Germany, this is a counsel of perfection.³ Considering that the People's Banks have had no help from Government, they represent a considerable achievement and afford Italy just the example of self-help that she needs. Their weakness is their isolation, and their danger the profit-seeking atmosphere in which they live. In the town co-operative fire is apt to burn low. In ancient Rome fire was regarded as so important that it was maintained by special means. The vestal fire of Co-operation also requires its guardians. It is a defect of the People's Banks that these guardians are lacking and that there is no central fire to kindle and inspire.

143. The People's Bank in its origin is a modification of the German co-operative urban bank, the first of which was founded by Schulze of Delitzsch in 1850. It was not till 15 years later that Signor Luzzatti, his most distinguished 'alumnus,' carried the seed of this new movement across the Alps and founded the first People's Bank at Milan. In Germany, even allowing for the difference of population,⁴ the movement is still stronger than in Italy and on the whole more genuinely co-operative. Including the societies⁵ that were originally started to finance the craftsman and the artisan, there are now about 1,900

¹ 3 million lire, viz :—

22 per cent. of the interest paid to depositors, 17 per cent. of net profit, 17 per cent. of share premia, 10 per cent. of stipeuds.

² Wolff, *People's Banks*.

³ In Germany, the ratio in 1914 was $27\frac{1}{2}$ per cent.

⁴ Germany — 57·8 millions (official estimate 1919, but see note, page 5). Italy — 35·8 (Census 1911).

⁵ Already described in paragraph 116.

co-operative urban banks in Germany.¹ They are scattered all over the country, and like the village banks are mostly affiliated to a local Audit Union, which may include Craftsmen societies and co-operative stores as well. These Unions, which in 1920 numbered 47, are all affiliated to the Schulze-Delitzsch Federation at Berlin.² Financial support is obtained either from the Prussian Central Co-operative Bank or the Dresden Bank, with which a special arrangement has been made.³ Thus the urban banks are as well organised as village banks, and they need all the support that organisation can give them, as the pressure of the large commercial bank is being increasingly felt. The object of the latter is to buy up the smaller banks, and in this they have often succeeded. Accordingly the banks are advised to make themselves as "bankmässig" as possible, that is to say, to undertake every form of business open to a bank, and to work on thoroughly commercial lines. A tendency in the same direction has been noted in the case of the People's Banks, and we have seen with them how commercialism may become a danger to the co-operative spirit. In Germany, too, the danger exists, but the German Bank is less open to attack than the Italian, as it is more genuinely co-operative.

144. This may be briefly illustrated by the following differences between the two systems:—

Differences between the German and Italian systems.

- (1) Shares are not allowed to appreciate in value. A few banks introduce the thin end of the wedge by charging large entrance fees.
- (2) Though dividends are not limited, in practice they do not usually exceed 6 per cent. A reason for this is that a society distributing more than 5 per cent. is liable to be taxed.
- (3) In Italy the full market rate is generally charged for loans, in Germany the rate is about 1 per cent. less. This is possible, as lower dividends are distributed than in Italy, and it follows that the German co-operative bank has still an advantage over the commercial bank, and to that extent is better able to resist its pressure.
- (4) Under German law no credit can be given to non-members.

¹ At the end of 1920 there were 1,903.

² Cf. Introduction, paragraph 7.

³ See paragraph 44.

- (b) The German banks are united in a common organisation and not isolated like the Italian. A higher co-operative standard can, therefore, be maintained.

145. It would only be natural if the German bank did less than the Italian for agriculture, as Germany is more industrial than Italy and is, moreover well provided with village banks. Actually, however, one-third of the members are agriculturists, which is as high as the proportion in Italy. Of the remaining two-thirds half belong to the industrial and half to the middle classes. In constitution the most important difference between the German and the Italian banks is that over 600 of the former have unlimited liability. When the movement started, this was the only form permissible by German law, and it has persisted since. Now, however, there is a marked prejudice against unlimited liability, and many banks are converting from the one form into the other.¹ Unlimited liability is only safe when members know each other well and can exercise a close control over the management. In a town bank, with its complicated business and with a membership which runs into hundreds and possibly thousands, this is clearly² impossible. Accordingly limited liability is to be preferred, unless a large sum has to be borrowed. In that case the bank should be kept small and only neighbours should be admitted.

146. There are certain differences of working between an Italian and a German bank, and the best way to illustrate them will be to describe a typical German institution. I take the 'Volks Bank,' that is to say the People's Bank, at Coblenz, a town of about the same size as Ravenna, but far more modern and the headquarters of a province instead of a district.

The bank was founded in 1866, the year in which the first three People's banks in Italy were started. (a) Membership. It opened with 12 members and now has 1,019, including 139 women. The more interesting categories are as follows:—

Craftsmen	... 267 (8 women).	Independent Merchants and Tradesmen	... 223 (13 women).
Peasant proprietors	... 63	Factory and Quarry Owners and House Builders	... 92
Owners of Hotels, Restaurants and Boats	... 62 (10 women).		

¹ Cf. paragraph 16 (c).

² For 476 German banks in 1918 the average membership was about 250.

Field labourers	...	5	Wage earners in factories, quarries, etc.	23	
In business but not independent	...	25	Subordinate Railway, Post and Telegraph officials, and boatmen and waiters	...	63
Doctors, Chemists, Masters, Artists, Writers, State and Municipal officials	...	101			

This is a varied list, but the membership of an Indian urban bank might be almost as varied. On the whole it is very like the list given for the Bologna¹ Bank. The Coblenz Bank has no specified area, but broadly speaking operates in an area equivalent to an Indian district.

All advances are made on the cash credit system, and every cash credit account is secured by a bond with sureties in the usual way. No period is fixed, so that the amount advanced can at any time be recalled. This system, which is more and more replacing the specific loan,² demands close control on the part of the management. At Coblenz this is secured by constant check. A director told me that he was continually checking members' accounts. Before anyone is allowed a cash credit account, careful enquiries are made through a local agent. These local agents, or 'men of trust' as they are called, are commonly employed in Germany³. No 'Castelletto' or register of maximum credit is kept, as it is everywhere the practice to decide each case on its merits. The sanction of the board of supervision is always required before credit can be granted. Though non-members are not allowed credit, they may open accounts and get loans against deposits or scrip, but not against a mortgage, as this form of security is not sufficiently fluid for a person over whom the bank has no control. To members advances will be made against house (not agricultural) property up to 75 per cent. of its value. Unlike Italy, a mortgage is constantly used in Germany as collateral, though not as primary⁴ security. No loans are made against shares, as under German law this is forbidden, but advances will be made against scrip up to 60 per cent. of their market value and also against goods, provided that they are formally pledged. As in Italy no loan can be made by a director on his own responsibility, but only with the sanction of the committee.

¹ Paragraph 137.

² In 1918, in 476 banks cash credit advances were 78 per cent. of the whole. The percentage has probably increased since, but the loan is still common in the smaller country towns.

³ Cf. paragraphs 90 (a) and 91.

⁴ Cf. paragraph 12 (chapter 1).

The committee consists of three members, all paid officials of the bank. This is the usual practice, and it is done to secure expert management, which is essential in modern banking. It can readily be understood that in the circumstances a heavy responsibility devolves upon the board of supervision, and Mr. Wolff is doubtless right, when he says that in these banks everything hinges upon the way the board performs its duties.¹ The board meets once a fortnight to check all accounts. Once a year, too, it divides itself into three sub-committees of three members each to check every loan account and scrutinise the security supporting each. This ordinarily takes five days. In addition the committee makes a separate check once a year, so that business is well controlled. As at Venice, savings deposits are encouraged by a slightly higher rate of interest and by the use of money boxes of which 500 have been given out. Only 6 per cent. is charged on advances, which is a full 1 per cent. less than the local commercial rate. Discount business is done, but to a much less extent than in the four Italian banks.² Dividend is not limited, but it never exceeds 6 per cent. The only blemish on the bank is that not more than 25 to 30 members attend its general meetings. This I understood is a common fault with Urban banks in Germany.

(c) Management.

¹Wolff, *People's Banks* ; cf. also Appendix (e).

²In 1918, in 476 banks discount business was only 20 per cent. of the whole cf. paragraph 132.

CHAPTER XII.—The Village Store in Italy and Ireland.

147. "The defence and salvation of the body by daily bread is still a study, a religion and a desire." So

The Need.

wrote a famous writer 30 or 40 years ago.¹

For Central Europe since the Armistice it might almost be described as a passion and a craving. In Germany last winter people still stood three or four deep hungrily scanning the food in the shop windows. In Italy prices were four or five times as high as before the war. Despite all the efforts of Government, the profiteer in one shape or another reigned supreme. Only one remedy has been available—Co-operation. In Germany, since the war began, urban stores have doubled their members.² In Italy, in town and country, the store has multiplied in hundreds, and in Ireland it is becoming the centre of the co-operative movement. In India, though prices have soared less than in Europe, need is almost as great, for the village bania or shopkeeper is too often both extortionate and incompetent; extortionate because he is generally a monopolist, and incompetent because he is too lazy or too ignorant to organize his trade.³ In Russia, a country that once resembled India, the co-operative store long ago captured the village, and its 20,000 stores show what can be accomplished where need is great.⁴ There are, however, difficulties as the following pages show, and it is a question whether development in India should be on German or Italian lines. In Germany, as at present in the Punjab, agricultural requirements are supplied but, for reasons which have already been explained, no effort is made to displace the village⁵ shopkeeper. So far, therefore as the *village* store is concerned, we must turn to Italy and Ireland for experience.

148. At the end of 1920 out of a total 15,000 societies in

Socialist and Catholic
aims in Italy.

Italy over 6,000 were co-operative stores.

How many of these belonged to the village it is impossible to say, but the number can hardly be less than 3,000. The societies fall into two main groups, Catholic and Socialist, though many, especially amongst the older societies, are independent of any organization⁶. The country is the natural field of the Catholic, as the town is of the

¹ Thomas Hardy—*Far from the Madding Crowd*.

² Now about 3 million.

³ In the Punjab "there is actually one shopkeeper for every 20 families, so that every 20 families are taxed with the cost of maintaining one shopkeeper's family"—Calvert—*Co-operation in the Punjab*, page 14.

⁴ Bubnoff—*The Co-operative Movement in Russia*, page 46.

⁵ See paragraph 52.

⁶ In December 1920 the Socialists claimed about 2,500 Societies and the Catholics 3,200.

Socialist, and though each invades the other's sphere, rural members preponderate in Catholic, and urban in Socialist societies. The Socialist's ambition is a centralized system of large societies with local branches, the Catholic's a federation of small independent societies each of which is a living, autonomous unit.¹ The Co-operative Alliance at Turin with 16,000 members and 39 branches is a good example of the former. The Socialist would merge the individual in the mass, the Catholic in the family. To the Catholic a co-operative society is the family enlarged to include neighbour as well as relation. For trade the Socialist claims that his system is the more efficient of the two. The Catholic replies that the small independent society can buy its goods direct which a mere branch cannot do. Large societies, too, develop monopolist tendencies which are a sure road to high prices. Further, stressing moral and sometimes religious issues, he maintains that Christian feeling and mutual help will thrive better in a small society with strong local ties than in the more impersonal atmosphere of a large loosely-organized mass. The store, appealing primarily to the body, if not to the stomach, is probably less favourable to the co-operative virtues of self-help and good fellowship than any other important form of Co-operation. Incidentally, this is an objection to the school of thought that would subordinate every form of Co-operation to the store.² Accordingly in building up an organization of stores it is important to choose the system most calculated to foster moral as well as material advantage. To this extent certainly the small society is to be preferred to the large, and if one society is federated to another it should be reasonably efficient.

149. Probably 75 per cent. of the stores in Italy have been started since the war, and numerically they are now the most important branch of Co-operation in the country. For this the profiteer is mainly responsible, but many societies have also been started to secure the preferential treatment accorded by the Food Controller to co-operative societies. 'Bluffisti!' — a co-operative journal calls them. As with other forms of Co-operation, the store is much more numerous in the North than in the South of the peninsula. The want of energy due to Southern warmth and the lack of good managers account for this. The latter have often to be imported from the North. On one occasion at a meeting of priests to form a society to supply them with clothes one of them asked—"and who will protect us from our manager?" An inspector told me that the

¹ Amongst the Catholics too are some who desire large societies. In Italy few general statements can be made without qualification or exception.

² See introduction, paragraph 12 (a).

co-operative store was three or four times as difficult a matter in the South as in the North, and that continual inspection and rigorous control were necessary. I mention this as conditions in India may not be very different. In the North the difficulty is to keep pace with the movement. In the district of Bergamo at the foot of the Alps two-thirds of the communes¹ already have societies, and in the old Austrian district of Trent there are 285 for 330 communes.²

150. For the most part the older societies deal only in provisions. The new ones are also attempting the supply of agricultural requirements, and a considerable number the sale of boots, shoes and clothes. The latter requires more experience than most committees have at present. Wine is occasionally sold, and a club room will perhaps be hired, where it can be drunk to the accompaniment of gossip, politics and tobacco. Many societies are applying to be allowed to set up a butchery, and in some cases the price of meat has already been reduced. A few village banks have opened a store, but this is rightly discouraged as a bank and a shop do not go well together. Membership varies with the area, which may be a village or a whole commune. For the 3,200 Catholic societies, urban as well as rural, the average is said to be 200. For village societies it will be less.

Generally goods are sold at the lowest possible price which is usually about 10 per cent. above cost. (b) Prices. Before the war market prices were charged and a rebate on purchases, varying from 1 to 2 per cent., was distributed at the end of the year. This undoubtedly is the sounder practice, but for the moment prices have risen so high that everyone wants them reduced to the utmost. The rebate system, too, is considered too laborious and complicated for a small inexperienced society. Though, I did not find this to be the case with the societies I visited, it might very well be so with village societies in India.

An important difference between Socialist and Catholic is that, unless party feeling is strong, the Socialist society deals with member and non-member alike. (c) Dealings with non-members. An extreme case of this was a society near Venice which had 3,900 customers, of whom only 120 were members. The Catholic considers

¹ A commune may include as many as 7 or 8 parishes or villages.

² It is to Austria's credit that this district vies with any in Italy for co-operative development. 18 per cent. of the population are said to be members of societies.

that a society exists only for its members, and more than half of the Catholic societies are said to act accordingly. In the Catholic district of Bergamo this is done with the express object of inducing people to become members, and when most people have joined, the shop is thrown open to all. It is a disputed question how far a society should deal with non-members. In Germany such dealings render a society liable to taxation, and this is perhaps the best solution of the question.

Membership is easily acquired. In a small society five or ten shillings will purchase a share, in a large ten or twenty. Liability is always limited to the value of the share.¹ In Italy this is the invariable rule with every kind of society, unless liability is unlimited. Dividends are also limited to 5 per cent., and for the first few years, to increase resources, all profit is carried to reserve. In the smallest villages turnover varies from £500 to £1,000, in the larger from £4,000 to £6,000. In 1919 for nearly 4,000 societies in both town and country the average was about £4,000. For Italy has a whole the total turnover must be well over £25 millions.²

151. On the lower slopes of the Alps, within sight of Monte Rosa and within a few miles of each other, are five village stores upon which I came by chance. Not one of them owes anything to outside help and none belongs to any organization. 'Bread not politics is what we want.' Politics indeed are anathema to a village that values peace, and in all these societies was the same feeling: 'We are peaceful folk and the friends of all, and we don't want to belong to any party.' The largest of these villages has 2,000 inhabitants, the smallest six or seven hundred. Most of the members are peasant proprietors, often with plots so small that, like the hillmen of Kangra, employment has to be sought elsewhere. Many cross the Alps to work in Switzerland and France, but not all, for unlike Kangra the water-power of the hills is used and three out of the five villages have small factories, which respectively turn out carts, trunks, and silk.

None of the societies required much capital at the start. Stocks were kept low and credit was sparingly given. Dealers, too, allowed 3 months' grace. Each member paid a few shillings for his share, and those who could made a small deposit. Here and there a

¹ Also the rule in Ireland.

² 2,000 million lire.

larger sum was taken from a local fund or from a prosperous resident, but nothing was borrowed outside the village. Most of the societies deal only in provisions. One also stocks boots and shoes and another sells wine, maintaining a club for the purpose. Thanks to this it has 300 members, which is considerably more than most of the others. Goods are purchased wherever they are cheapest. The local co-operative 'wholesale' (at the headquarters of the district) is not very popular and one president spoke with feeling of its 'canine teeth.' Stock is turned over 4 or 5 times a year. Before the war a small rebate used to be distributed, but now profit is usually carried to reserve. In two cases all dealings are for cash. In the others accounts have to be settled once a fortnight, a rule, however that is applied with indulgence. Non-members, if well-known, are also allowed credit. Limits are not prescribed, but abuse is guarded against by an excellent rule which holds the manager responsible for any loss. Security is taken from him accordingly. Goods are ordered and prices fixed by the president and secretary who weigh and register everything on arrival. In one society each member of the committee takes it in turn to do this. Only in one instance is everything left to the manager. The president admitted that this was undesirable but pleaded lack of time.

In all these societies the manager is local. In one case he had been changed several times to guard against any possible understanding between him and the president or secretary. In another it is laid down that he may not be related within four degrees to either the president, vice-president, treasurer or secretary. He is remunerated by a percentage on the turnover varying from 3 to $4\frac{1}{2}$ per cent. No one else is paid, so the expenses of management are small. The presidents are characteristic of the neighbourhood. The most intelligent is a deputy-mayor or 'Lambardar' of the village. Another is a peasant proprietor who is also a mason; a third a factory hand. Amongst the secretaries are a young mechanic, a clerk, a mason and a carpenter. General meetings are held once or twice a year, and in the youngest society once a quarter. The latter was started 'to quiet prices,' and there is general agreement that as a whole the societies have had this effect. Other advantages are that people are now more contented and get better quality for their money.

Stock and accounts are checked once or twice a year by two or three members of the committee or one or two of the

'Syndies,'¹ but there is no formal audit, nor any outside control. Yet the societies undoubtedly flourish. In a small way they show what the Italian of the North can do when obliged to depend upon himself. It is perhaps characteristic of the country, that, though two of the societies belong to a single village and are less than half a mile apart, local jealousy makes any mutual dealing impossible. Yet, and this too is characteristic, 53 members of the one belong also to the other, in order to be able to use its club room, where the sale of wine at a modest price evidently heals all differences.

152. Turning now to Ireland we find a marked tendency to regard the General Purposes Society as the society of the future. At present it is generally no more than a village store where, however, agricultural requirements can be purchased and members' eggs can be sold. In time—and this explains its name—it is hoped that it will satisfy every economic need of the neighbourhood. Whether it is wise to make an essentially commercial society with limited liability the centre of the co-operative system may well be doubted. German example is against it, but then Germany has fostered the village bank, whereas Ireland has allowed it to decline. This is to be regretted as the co-operative spirit, which the world needs far more than any specific material benefit, is likely to thrive better in the fraternal atmosphere of a village bank than in the more commercial 'milieu' of a store.

In 1920 there were about 400 General Purposes Societies in Ireland with an average of 150 members each. With one exception those I saw were all in Donegal. Broadly, the Irish system resembles the Italian with two main differences. One is the sale of eggs which is a great convenience to members, as they are an important article of export. The other is sale at market rates combined with the distribution of a rebate (miscalled dividend) which rarely exceeds 5 per cent.² Occasionally societies fall into the temptation familiar to a certain type of Indian company and distribute a 'dividend', though there is no profit. "We had better do it for the look of the thing" said the President of one society to the assembled members. The turnover is slightly larger than in Italy averaging about £4,500. It would be considerably less but for the business done with non-members, who are often two or three times as numerous as members.

¹ Every co-operative society in Italy has a body of five men corresponding to the German Board of Supervision—(See Appendix (e)).

² Every member has a pass book in which his purchases are recorded, and the society keeps a card for each member with corresponding entries.

As long as this continues, the General Purposes Society will leave a good deal to be desired.¹

153. Four things are essential to the success of an organization of village stores—a wholesale society, sufficient capital, a good manager and adequate control. Something must be said about each. The necessity of a wholesale society has already been sufficiently explained in connexion with the German Supply Society.² In Italy it is considered so important that, since the war, in addition to a national wholesale society at Milan³ the Catholics have started 50 district wholesales to act as a link between the national society and the village. Similarly in Ireland there is the Irish Agricultural Wholesale Society.⁴ Few, if any, societies in either country deal exclusively with the 'wholesale', and, as we have seen, some societies dispense with it altogether, but, once the movement extends, it is indispensable to efficient organization.⁵ In Ireland indeed it is claimed that the I. A. W. S. has reduced the price of guaranteed manures by 50 per cent.⁶

The second requisite is capital. In Ireland share capital, which is admittedly too small, is supplemented by deposits or by a cash credit account at the nearest joint stock bank which is rarely very far away. The best German authority is opposed to a trading society accepting deposits, as it has not the necessary banking experience; and in the case of a store, deposits are apt to lead to speculative purchases or to too lavish credit.⁷ The objection to a cash credit account is that it must be guaranteed by the committee. In one society I saw (not a store) the guarantors had had to pay up £45 of interest and were threatened with a much more serious call on account of principal. In Italy the secretary of the Socialist federation, more perhaps by way of guess than estimate, put the total liabilities of store societies at £12½ millions of which nearly £10 millions, he said, were borrowed, half from local banks, etc., and half from the State-aided National Institute of Credit.⁸ Advances are made by the latter at 7 per cent.⁹ up to $\frac{3}{4}$ of the average value of a society's stock, upon which the Institute has first charge under law. This is

¹ In the new societies members are said to preponderate.

² Paragraph 56.

³ Consorzio Nazionale di Approvvigionamento, founded since the war but not yet working very well. The corresponding Socialist society, the Consorzio Italiano, is also at Milan. It recently lost £80,000 through a sudden fall in prices and is only now beginning to get on to its legs again.

⁴ See paragraph 61 (c).

⁵ It is estimated that Catholic societies buy $\frac{1}{3}$ rd of their goods from the local wholesale.

⁶ *Economic Journal*, volume XXVII (1917), page 359.

⁷ Cf. Appendix (d).

⁸ See paragraph 49. Over £1 million were advanced by the National Institute in 1919.

⁹ The rate is really higher as a commission of $\frac{1}{2}$ per cent. is charged on each loan irrespective of period.

its sole security. The Catholic Bank at Milan, which has already been described,¹ advances without formal security, trusting to moral guarantee and general control. Goods are not pledged, as a pledge is difficult to realize; but payments to dealers have to be made through the bank, so that operations can be watched. The amount advanced is determined solely by need. The group of hill societies described above shows that a village store may be almost self-supporting from the start. If, as is usually the case, the dealer gives a month's² credit, very little capital will be required, and it should be possible to raise it by shares. This, however, depends upon two things. Dealings must be for cash, and stock must be kept low. In India if a member has no ready money, he should borrow from his village bank rather than from the store. As to stock, in Italy it is probably not turned over on the average more than 5 or 6 times a year. An urban store I saw claimed to turn it over once a fortnight. A village society can hardly expect to do it more than 8 or 9 times a year, and that only with good management.

In the course of this report it has repeatedly been necessary to emphasize the importance of good management. In a store it is essential, and in a village store fundamental. We have already seen how great a difficulty it is in the South of Italy, and how even in the honest, unsophisticated Alpine village of the North it was thought advisable to change the manager repeatedly. In the South of Ireland, too, it has been difficult to find managers at once honest and capable, and even in the North the right type of man is only gradually being found and trained. "In too many instances has there been a tendency to appoint local persons who have had no training whatever, co-operative or otherwise, and whose sole qualification is that they are related to one of the committee."³ In Italy it is a common fault for salesmen to accept commissions and to favour friends and relations. The salesman is always a local man, as societies cannot afford to bring in someone from outside, and in some cases he becomes, as one informant remarked the 'vero proprietario,' the real owner of the shop. As the same person added, these are 'small phenomena' which it is difficult to avoid.

¹ Paragraphs 48 and 49.

² Before the war in Italy it used to be three months. The 'wholesale' at Florence still give from one to three months.

³ *Better Business*—August 1920.

For all this the only remedy is training and control. In Italy a large number of seven or fifteen-day courses are arranged for salesmen, secretaries and members of committee. Examinations are held and diplomas given. The results, it is said, are excellent. Control depends primarily upon the committee and the general meeting. Too often initial enthusiasm peters out before the end of the year. The general assembly leaves everything to the committee, and the committee everything to the manager. It is at this point that the touring inspector is needed. All agree that the village store requires special, if not rigorous control. Every year stock must be checked and accounts audited¹. In Italy the Catholics alone have attempted the latter, but now all parties realize its importance, and if the projected new law passes it will have to be done once a year. An annual stocktaking is already compulsory. The more efficient societies do it twice a year. Some authorities recommend once a quarter. Much depends on the state of the society. Normally it is done by one or more members of the committee assisted perhaps by one of the 'Syndics.' In one society I saw, special members were nominated for the purpose by the general assembly. Whoever does it must, at least once a year, do it thoroughly, counting and weighing everything, otherwise there can be no reliance on the auditor's report. Other stocktakings can be more cursory². The general Inspector of the I. A. W. S., who has to inspect General Purposes Societies all over Ireland and who speaks with special authority as he was for several years manager of a store, said that inspection was of little value, unless the whole stock was checked and the entire machinery overhauled. This was the only way to detect leakages and see that everyone was working properly, and he would do it in a new society once a quarter and in one well established once a year. It must, however, be done by a man properly trained and there was no better training than to have five years as manager of a store.

In pursuance of this policy, the I. A. O. S. now maintains a list of qualified managers who are willing to act as approved stocktakers for societies in their neighbourhood. Importance too is attached to the stocktaking being attended by some at least of the members of the committee, in order that they may see for

¹ In Ireland the audit fee is £1 per £1,000 of turnover up to £10,000; above that by agreement. The fee for affiliation to the I. A. U. S., is £1 per member and £10 per £1,000. In return for the capital fee the General Purposes Society is usually given a free interim audit—*c.f.* paragraph 29 (c)—footnote.

² *Cf.* paragraph 55. To facilitate stocktaking the manager should classify his stock beforehand and attach labels to each class to show the amount in stock. A list should then be prepared by the committee and valued by the managers. Finally, the committee should check a sufficient number of the manager's valuations.

themselves the condition of the goods in stock. A number of societies have come to grief 'simply because there was no proper stocktaking, and stock appeared in the accounts which was not in the store, and the members were deceived for years as to the real position of the society, with the inevitable consequence of a final smash up¹.' The Punjab too has had its experience of this kind.

154. A few points remain :—

Miscellaneous Points.

(a) In Ireland a society's area is normally a radius of 3 to 5 miles. Within this limit the aim is to secure as many members as possible. In Italy the area varies from a commune of several villages to a village or part of a village, if the latter is large. In both countries convenience rather than theory is the determining consideration.

(b) In a few Irish societies credit is not allowed, but this is said to restrict business. When dealings and general position are good, it is given freely. The general Inspector of the I. A. W. S. thought it should be left to the discretion of the manager, who should however be checked by the committee. In India it would probably be better to follow the practice of the Alpine societies described above and hold the managers entirely responsible.

(c) The proportion of gross profit to turnover will often serve as a rough guide to a society's condition. It necessarily varies with the commodities dealt in, but in a typical Irish society it averages between 10 and 15 per cent.

(d) Nearly all store societies find it difficult to get their members to come to general meetings. In Italy absentees and indifference are common, and in Ireland at only one of the five meetings I attended were more than 12 per cent. of the members present. It is a serious drawback to the co-operative store, and one that should be considered by those who would subordinate everything to it, that it is a bad medium for drawing people together. The importance of this is that, if people do not meet, the co-operative spirit cannot be developed. It was a dim perception of this that made a member at a thinly attended meeting suggest a tea party as a remedy, and it was doubtless a clear perception of Irish character which made the president reply—'you'll never get 'em in for tay.' Education in

¹ *The Irish Homestead*, 1920, page 675. In 1919-20; 15, per cent. of the General Purposes Societies worked at a loss (I. A. O. S. *Annual Report*.)

co-operative principle is probably the only true remedy. Meanwhile 'thou shalt not live by bread alone' might well be written up in every store.

155. Materially, there is no doubt that success has been achieved. In Ireland the gain to members is put at 2d. or 3d. in the shilling. 'If there be no store' exclaimed the president at one meeting 'it'll be God pity us.' In Italy, too, a curb has been put upon prices, though not without much opposition of the usual kind from traders. Where societies are well run, they soon get the better of their opponents and in some cases achieve a virtual monopoly; but where they are inefficient, high prices and profiteering continue.

It is not difficult to get people to form a society when prices are high, but for success it is important to start with a nucleus, however small, of real co-operators who will hold the society together when difficulties begin. For this much preliminary training is necessary. It must be remembered that everywhere, in Italy as well as in Ireland, the peasant has to be taught everything, and that most committees will feel helpless till they are educated in their duties. For success on a larger scale there must be (1) wholesale purchase, (2) standardization of orders to get the lowest possible rates, and (3) direct dealings with the producer. The latter, which is just beginning in Italy, is of the utmost importance but full of difficulty.¹ Finally, in every society—great and small—there must be, to use an expressive Italian phrase, 'grande onesta e le unghie corti,' entire honesty and the nails well pared.

156. I cannot close this chapter without a brief account of a society I saw in Donegal, probably the most remarkable in all Ireland and certainly one of the most inspiring I have seen in any country. Donegal is famous for its tweeds, its scenery and its bogs. In the North-West corner of it, where rock and bog slope down to the Atlantic and where till recently the gombeen man ruled like any money lender of the East, a small co-operative store was opened 15 years ago in a hut on the hillside six miles from Dungloe. Forty-two members each subscribed half-a-crown and with this was bought a modest quantity of tea, sugar, milk and flour which three or four members sold in turn. The effect was immediate. Flour fell from 12 to 9 shillings a bag; more members joined and the fight began. It was war to the knife. Every trader in the neighbourhood combined to break the

The Templecrone Co-
operative Agricultural
Society.

¹ See Introduction paragraph 12; also paragraph 61.

society. United, their power seemed irresistible. Hardly a man on that bare hillside that was not sunk in debt and therefore at the mercy of 'the trade.' Several members were sold up and evicted from the acre or two of peaty soil they cultivated, but said the president—"nothing was heard of it outside, for the traders, unlike the landlords, were good politicians." As persecution has driven men underground to perform their rites unobserved, so many members used only to come to the store under cover of night. The fight spread to the large town of Londonderry. Bread came from there and the bakers suddenly refused to supply it. The society nearly foundered. Then the president in desperation went over to Scotland and got the Scottish Co-operative Wholesale Society to supply it instead. Finally, the president himself was attacked. The local bench of six included five traders. A fellow-trader swore that he was in danger of his life and Patrik Gallagher—his name deserves to be recorded—was ordered to find bail. The alternative was gaol and to gaol he went, till friends in Dublin got him out. When he returned to Dungloe the streets were illuminated and the hills blazed with bonfires, as if a new king were crowned. And indeed it was not very different, for from that day the trader reigned no more. The society now has 450 members and a turnover of £71,000. Everything is supplied that a small farmer can want and a rebate of $7\frac{1}{2}$ per cent. is regularly distributed¹. Moreover the whole knitting industry, almost as important to the neighbourhood as its scattered plots of land, has been reorganised. 152 girls, mostly members' daughters, are employed to make socks, gloves, mufflers, coats and jerseys, either at home or in a large airy room belonging to the society. Last year the value of these goods amounted to £30,000. In the old days $1\frac{1}{2}d.$ was paid for a pair of gloves. Now an average of 35 shillings a week (48 hours) is paid and as much as £3 or £4 can be earned. The higher wages are spent on better clothing and, where everyone was recently in debt, deposits now total over £13,000. Moreover, there is hardly a cottage in the neighbourhood that has not been rebuilt. This must not be set down entirely to Co-operation, for war has brought prosperity to all farmers, and in eliminating the competition of Austria it gave the knitting industry at home a temporary monopoly of the market. But it is Co-operation that has dethroned the gombeen man and made free men of slaves, Co-operation working through the generous, dogged, resourceful character of the society's founder and its only president.²

¹ Not, however, on agricultural requirements.

² For a more detailed account of this society, see I. A. O. S., Leaflet No. 22 *Templecrone*, written by that most inspiring of writers upon Co-operation, George Russell ('A. E.').

CHAPTER XIII.—Co-operative Farms.¹

157. The co-operative farm is Italy's special contribution to agricultural co-operation. Its importance

Their Importance.

lies in the fact that, whereas other co-operative forms, such as supply, sale and credit, only deal with the means or the results of production, the farm deals with production itself. It therefore touches agriculture at its root. Whether it can be introduced into India, as it is now being introduced into Ireland, Serbia and Germany,² may possibly be doubted, but the experiment should be tried, and for this the canal colonies of the Punjab with their vast tracts of virgin soil present an unrivalled field.

158. It is impossible to write of co-operative farms without touching, however briefly, upon land tenure.

Land Tenure in Italy.

The Italian system is remarkable for its variety. It includes all the most typical forms of Europe, often side by side—the large landlord resident as in England or absentee as in Ireland, the small peasant proprietor so common in Germany, the 'metayer' or crop-sharing tenant characteristic of South Western France, the capitalist farmer with his train of labourers, the peasant farmer with his 'three acres and a cow,' the middleman farmer who is little but a rent collector, and finally, large public or semi-public estates, for the most part confiscated from the Church or more or less reclaimed from marsh and fen. The only one of these that requires a word of explanation is the crop-sharing tenant, as he will be frequently mentioned in the following pages. He is a tenant with whom a landlord forms some sort of partnership based upon a division of the produce. A common form of this partnership is for the tenant to supply labour, but no capital except a few unimportant implements. The landlord supplies no labour, but provides land, livestock and equipment, for instance the oil press and the wine vat, and he also advances free of interest any capital required for the purchase of feeding stuffs and manure, the cost of which is divided between him and the tenant. In return he receives a portion of the produce varying from a third to a half.³

159. The co-operative farm came into being as a remedy for two evils, in Emilia⁴ to mitigate unemployment and in Lombardy to eliminate the middleman rent collector. In Emilia there

Origin of the Movement—

(a) in Emilia to remedy unemployment.

¹ For a good detailed account written from the Catholic standpoint, see Pio Benassi's *Affianze Collettive* published in 1920 by the Società Editrice Internazionale, Turin.

² The movement is already well established in Roumania.

³ The name given to this system, in Italy *Mezzadria*, in France *Metayage* (*Moitié*) implies dividing the produce into equal shares, but the recent agrarian disturbances have tended to reduce the landlord's share to less than a half.

⁴ The country from Piacenza to Ravenna.

was not enough work to go round, and as often as not the labourer was out of a job. Elsewhere he emigrated, but here he was too attached to his home. The usual methods of strike and boycott were tried, but without success. In this dilemma some one realized that, instead of attempting to force an uneconomic wage upon the landlord, it would be better to gain possession of the land and increase production. The labourers of Ravenna had already formed a society to undertake public contracts. In 1886 the latter took a lease of a few hundred acres for its members to cultivate, and this was the origin of the co-operative farm.

In Lombardy, thanks to the neighbourhood of large industrial towns, there was little unemployment but estates were large and holdings generally small. Accordingly landlords (often public bodies) found it convenient to lease an estate to a middleman contractor who made himself responsible for finding tenant and rent¹. At its best, as in England and Scotland, no business relationship can be more human and productive than that of landlord and tenant; but when the profiteer comes between, no relationship could be worse. It was a rich, philanthropic but not very determined landlord of Cremona who made the first attempt to deal with the problem. A society was founded in 1886 (the year which witnessed the first experiment at Ravenna) to rent a large estate direct and farm it out to its members. Unfortunately the innovation alarmed the neighbourhood; social pressure was applied to the landlord who soon began to tire of the experiment, and in two years the society came to an inglorious end. Meanwhile in 1887 a similar society had been started 20 miles from Milan, and after many vicissitudes a lease was finally obtained in 1894. This experiment proved a success.

Recent Growth. 160. In the next 30 years, despite many failures and false starts, the movement spread slowly through Emilia and Lombardy, and further afield into Sicily. Progress was hampered by lack of funds and experience. Then came the war with its sudden prosperity for farmers. Large estates were bought, machinery was acquired and organization developed. With peace unemployment again became acute. The demobilized soldier returned home with a hunger for land, and everyone wanted to be independent of everyone else. Agrarian disturbances broke out in many parts of the country, but not where the Co-operative farm was established. Government seeing in co-operation a remedy for discontent opened its purse and money was no longer a difficulty.

¹ This system is more characteristic of Upper than of Lower Lombardy, where large scale farming is common and the middleman (fittabile) often manages the farm himself.

Accordingly, instead of the few score of farms that existed before the war there are now nearly 500.¹ In three districts, Bergamo, Reggio Emilia and Ravenna, the movement is now definitely established. Elsewhere, to quote an Italian authority, "we have to deal with a new social institution which has not yet entirely found itself and which is still in the probationary stage."²

161. Two main types of society have been evolved, one individualistic and the other collectivist.
 The Two Main Types. In both, land is rented (or purchased) by the society for cultivation by its members. In the one, each member cultivates his own plot, paying the society rent in cash or in kind. In the other, individual possession is not allowed, or only to a limited extent, and instead members work for a fixed wage under the society's manager and all produce is pooled. This type is generally Socialist, and the other, which predominates, is mainly Catholic.

162. In nothing are the aims of Socialist and Catholic more sharply opposed than in the co-operative farm, yet in nothing is their practice more akin. The Socialist desires ardently to eliminate private property, and make the whole world collectivist. The Catholic, believing that the magic of property not only turns sand into gold but bad citizens into good, burns to convert everyone who tills the land into a peasant proprietor. One thing, however, is stronger than either Socialist or Catholic, and that is Nature herself. In old countries systems of cultivation have their roots in the ages. If small holdings have existed in Italy from time immemorial, it is because they suit the cultivator, the crop and the soil. If the large farm with its gang of labourers has also arisen, it is because rice and wheat cannot be grown on the same system as the olive and the vine. Small holdings therefore cannot be abolished without loss,³ or large estates cut up without risk.⁴

Further, even if one system of cultivation could be substituted for another, the difficulty of the cultivator remains. Habits centuries old are not changed in a day, and habits rooted in the soil are with difficulty changed at all. Not one tenant in a thousand can be turned into a collectivist,⁵ or one labourer in a hundred into a proprietor. The one is too dependent on himself,

¹ In 1906 there were only 108.

² Benassi, page 99.

³ For instance each has its own house and farm buildings.

⁴ In the district of Milan an attempt to split up large estates failed.

⁵ Some collectivist societies in Reggio Emilia admit small farmers and crop-sharing tenants, but only if they work for wages, i.e., as labourers, for at least half the year. This the farmer will only do under strong necessity.

the other upon others. Accordingly, if a large farm is rented, it is better to maintain it as a whole with the field labourer employed as before. And in that case, whether the society is Socialist or Catholic, collectivist principles must be applied; that is to say, wages must be paid and produce pooled. Conversely, small farms, unless they are isolated, cannot well be swept away. Each tenant must be left to his 'three acres and a cow' and, though produce may be divided between member and society, it cannot be pooled for the whole estate. Broadly, therefore, it follows that the collectivist farm is only possible where cultivation is done by the labourer, and the individualistic where it is done by the tenant. Accordingly, though the Socialist makes every effort to prevent the further spread of small holdings, and the Catholic every effort to increase them, in the main both acknowledge that, for a co-operative farm to succeed, it must be grafted on to the system that prevails.¹ This is fundamental, and it means that it will be useless to apply the collectivist form to the peasant proprietor of the Punjab. For him the other type is the only one with any chance of success. It must therefore be described in detail.

163. For this purpose I shall confine myself to the Catholic district of Bergamo, which is the home of the individualistic society. Embracing, like Gurdaspur, both hill and plain, its 70 societies include the shepherd and his upland pastures,² the vinegrower and his warm Southern slopes, and the small holder cultivating wheat, maize and silk on the irrigated lands of the Lombard plain. All these societies are of the individualistic type, though in one that will shortly be described a collectivist tendency is apparent. Ordinarily a lease is taken for nine years, or at most for twelve. Each member—nearly all are peasant farmers accustomed to small holdings—receives a plot of land varying in size according to his need from $1\frac{1}{2}$ to 10 acres. This he must cultivate himself, and provided that he does not sublet, that rent is paid and the land not abused, he will not be disturbed until the lease expires. The distribution of the land is then revised, and if one family has too much and another too little, adjustments are made.

¹ A good instance of this is the society of Fosselli di Carpi which entered into a crop-sharing partnership with the landowner, as this was the system of the neighbourhood. Benassi, page 53.

In Ravenna, too, where both large and small holdings prevail the Socialist, after forming many collectivist societies for the labourer who is employed on the larger farms, is now organizing societies on individualistic lines for the small holder. Similarly near Milan the Catholic is doing the precise contrary.

² Pasture societies are formed to secure to the people of the neighbourhood their ancient pasture grounds and prevent the interloper from the plains from getting a lease. Leases are taken from the local commune.

Every member finds his own implements and livestock, but costly machines like fodder cutters and threshers can usually be hired from the society. Seed, manures and other agricultural requisites are supplied on payment, and some co-operative sale will also be attempted. This however, for want of sufficient co-operative spirit, is still in its infancy, and for the most part only the cocoons of silk are sold by the society. In the more advanced societies there may be a bank where loans can be had or savings deposited, and there may also be a store, where household requirements can be purchased.

The chief official of the society is the manager, who is often a trained agriculturist. His most important function is to give members expert advice, for the peasant farmer in Italy, as everywhere else, requires to be guided in every step. The difficulty is to get him to realize this, and he is apt on joining a society to feel all the independence of the proprietor and to treat the manager accordingly.¹ The latter's only remedy is to propose expulsion, but this is rarely done, and in practice members cultivate pretty much as they please. Yet where the manager is a man of character and tact, his influence may be considerable.

As can be imagined the chief difficulty in this form of society is the apportionment of land and rent. If members are already in occupation, the *status quo*, with here and there a modification due to equity, will be maintained and no serious difficulty arises. But when land has to be given out afresh, individual circumstance, size of family, quality of soil have all to be considered. If necessary decision is by lot. Rent has also to be assessed and then, as one writer says, "arise questions, wranglings, complaints, misunderstandings between friends which threaten not only the harmony of the members but the very existence of the society. Everyone finds his own quota of rent absurdly high, the quality of his land far below the committee's estimate and his house much smaller than that given to his neighbour. Finally everyone wants to be better off than his neighbour and pay less."² Judgment, patience and firmness are all required to deal with this, and it is clearly of great importance that too high a rent should not be paid by the society itself, otherwise these difficulties will be aggravated tenfold.

¹ Cf. paragraph 179 (c).

² Benassi, page 85.

Many of the societies in Bergamo have a Council of Vigilance or board of supervision which need not necessarily consist only of members of the society. Societies experimenting in new and complicated forms of co-operation will often be the better for outside assistance, and in Bergamo the parish priest or a keen co-operator of the neighbourhood is frequently brought in to assist and advise, or even to guarantee a loan. In this way the pioneer of the movement in Northern Italy, the enthusiastic Monsignore Dottore Portaluppi, parish priest of Treviglio, has been able to found and establish the most important parent society of the neighbourhood, that of Castel Cerreto.

164. The co-operative farm is in a sense a return to primitive custom. In England, when Saxon conquered Celt, the soil was held by groups and not by individuals. "Co-operation in agriculture"—we read—"was necessary because to each household was allotted separate strips of land, nearly equal in size, in each field set apart for tillage." The land was divided in this way "to give each family its share of both good and bad land, for the householders were all equal, and the principle on which the original distribution of the land depended was that of equalizing the shares of the different members of the community."¹ Finally we are told that, though there was co-operation in working the fields, there was no communistic division of the crops.² With one or two modifications this might well be a picture of the type of farm we have been describing. But, though similar in form, the co-operative farm is very different in aim; for its object is not only to improve agriculture, but also by its ideal of mutual service, to raise the modern rural community to a higher level of civilization and Christianity. To the good Catholic co-operator this is vital,³ and it was partly for this reason that most of the societies in Bergamo have been formed with unlimited liability. By quickening interest and arousing a sense of responsibility, unlimited liability develops a keener corporate spirit than any other form of association. It is here that the primitive community has the advantage. As many an Indian village still shows, isolation and insecurity breed a corporate spirit which civilization with its individualizing touch has almost destroyed. No one is more individualistic than the Italian peasant of to-day.

¹ Cutler, *A Short History of English Agriculture*, page 1.

² Whether or not in these early times the arable land was subject to redivision is not clear. By the 11th century it was exceptional. Here and there in the Highlands of Scotland land is still constantly reallocated. —S Mackenzie, *A Hundred years in the Highlands*.

³ See Portaluppi, *L' Affitto Collettivo*, page 18.

If industry is his strength, egoism is his weakness. Accordingly, to the Catholic it is the principal object of Co-operation to temper the one without weakening the other, and he believes that the only way to achieve this is to restore the corporate basis of his economic life.

165. It is now time to give a concrete example of the co-operative farm. Two will be described, one to show it in its simplest form and the other at a much more developed stage. At the foot of the Alps, with half its land in the hills and half in the plains, stands the unpretending village of San Paolo d'Argon, in which a single building arrests the eye. Once a Benedictine Monastery it is now the home of the members of the local co-operative farm. The old refectory with its half obliterated frescoes is the society's store room and here, where the monks once dined, 89 co-operators now hold their general meetings. The society was formed 10 years ago to get rid of an unpopular middleman contractor, through whom the Hospital, which now owns the estate, used to lease the monastic lands. It was not an easy start, for to outbid the contractor a higher rent had to be offered than before, and as a guarantee of good faith $1\frac{1}{2}$ years rent had to be paid in advance. Many members sold cattle and deposited the proceeds with the society. Others borrowed what they could, and everyone worked his hardest till the amount was obtained. A further difficulty was the condition of the vines which had been almost entirely destroyed by phylloxera. All had to be replanted, and before this could be done, experiments had to be made to discover the vine most suited to the soil. These were so successful that, when I visited the society, its cellars contained nearly 250¹ tons of wine. A thousand acres have been rented, but nearly half of this is woodland. In the old days members used to cultivate on the crop-sharing principle, but now each pays his quota of rent, and as one said to me—"now that I get *all* the produce, I work with passion, and I do my best to improve the land." This is one of the advantages of the co-operative farm. It gives the man who used to work for another the feeling that now he need only work for himself.

Rent is paid through the silk cocoons—the mulberry as well as the vine is cultivated—and any deficit is made good in cash. Cocoons are the only thing sold co-operatively. Though the wine cellar and all its appurtenances are leased by the society, each member makes and sells his own wine and stores it in his own casks. So far every attempt to secure co-operative manufacture has failed. Members are at once too independent

¹ 250,000 kilos.

and too conservative. Manure and seed are supplied through the society, and manuring is now said to be done more scientifically and seed to be selected with greater care than before. This is doubtless due to the manager who is in charge of the society. Crop insurance is compulsory, as the crops are the only security for the rent. On grapes the premium is as much as 18 per cent., on wheat 5 or 6 per cent. Discipline is not strict. No member has ever been expelled, though two or three times it was admittedly necessary. No dividend is ever distributed. Instead the profit which is small is carried to reserve. The society is now so strong that it could almost afford to buy the land. An important point to notice is that at the start members trusted to their own good effort rather than to the modern nostrum of State aid. Genuine Co-operation means self-help and self-sacrifice. Of this the society, though it has not advanced very far, is a good example.

166. The second society has already been mentioned, for it

A Plains Society—

(a) Distribution of the
Land.

is the oldest in Lombardy. It is nearly 30 years since, with the help of a few sympathizers who became honorary members for

the purpose, a number of small peasant farmers of Calvenzano, a village situated in country as flat as Amritsar, combined to take a lease of 132 acres of irrigated land from the landlord direct, instead of each renting his two or three acres from a middleman rent collector. The society now *owns* 500 acres, valued in its balance sheet at nearly £5,000 but in reality worth much more, and in addition rents four estates for £500. Owing to a Socialist tendency there are a number of ex-labourers amongst the members, and this accounts for a feature which is unusual in individualistic societies. The land is entirely redistributed every three years. Each family, so far as possible, is given five-sixths of an acre per head, and, as in the primitive Celtic community, holdings are made up from different estates, in order that everyone may have good and bad land alike. Members may cultivate their land as they please, but on no account may they sublet, nor may they even cultivate it in partnership with anyone else. Theoretically the society is open to all, but in practice, as land is scarce, new members are excluded by an entrance fee of £15.¹ Sons of members, however, pay only half a crown.

As 1½ years' rent has to be deposited by the society as

(b) Co-operative Sale
and Tomato Fac-
tory.

caution money, members pay half their rent in advance.² The balance is paid in silk cocoons which, with tomatoes, are

¹ 1,200 lire.

² A new society should always do this. It reduces general liability and gives the society ready money.

the only produce sold co-operatively. The sale of cocoons presents no difficulty, as the members' sole alternative is to deal with a merchant who, like those of Amritsar, only supplies the silk worm eggs on condition that the cocoons are sold through him, an arrangement that is naturally all to his advantage. Tomatoes are dealt in, as for the last 14 years the society has had its own factory for making tomato conserve. To keep it well supplied members are obliged not only to sell their tomatoes to the society, but to grow them on a fixed proportion of their land. Both rules are said to be observed as prices are good and co-operative spirit strong. In another way, too, the factory is useful, for 16 hands, all sons of members, are employed in it. Owing to keen competition and poor management it made a bad start, and for the first six or seven years was worked at a loss. Now it pays its way.

The society undertakes a number of miscellaneous activities all calculated either to cheapen or to increase production. Seed and manures are supplied, a weighbridge is maintained, and machines for threshing, pressing fodder and drying maize are hired out for a moderate charge. Members are encouraged to bring their savings to the society and their deposits now total nearly £5,000, another sign of the prosperity brought to the farmer by the war. Loans are made when needed, and insurance against hail is encouraged by paying one-third of the premium. Members are also insured against old age, and for those who are too old for this the society contributes 25 shillings¹ a year to a provident fund. If a member is ever too ill to work, the president appeals to the 'filantropia' of other members to cultivate his land, and anyone who does it has his name recorded in an album kept for the purpose. A weak point in the society is that its manager is not a trained agriculturist. This hampers agricultural development which should be the main object of a co-operative farm. Otherwise it will be little better than a glorified Irish general purposes society. Yet even so it will have one advantage over the latter, for production, not consumption, is its basis, and for the farmer this is the more natural and educative basis of the two.² In this society it is claimed that production has increased, and that the farm has been a spur to the whole neighbourhood. As a result, too, of eliminating the middleman, rents have been reduced.

¹ 100 lire.

² Cf. paragraph 152.

167. A few figures must now be given to show what has been accomplished in the single district of Bergamo¹. The total area cultivated by 70 societies is about 20,000 acres. Three societies have 1,000 acres or more, but at least ten have less than 100. Similarly the largest society has 222 members, the smallest only five. As many as 18 have less than 20. A co-operative farm may, therefore, be as much an affair of half a dozen neighbours as of two or three villages. This is encouraging to those who believe in small beginnings².

168. One society in Bergamo has purchased land in order to sell it to its members. A debit and credit account is opened for each purchaser, who has to pay in the whole amount (by instalments) before ownership passes. In Ravenna a considerable number of societies have been formed for the same purpose. Prosperity acting upon land hunger has had the same effect there that it has had in the Punjab. Agricultural land has been forced up to fancy prices and has sold at 8,000 lire³ an acre. The primary object of these societies is, by combining purchasers, to check the competition that leads to high prices, and incidentally to encourage better farming; for like the Punjabi, "the small proprietor will rather spend his savings in buying fresh fields than in improving those he has already."⁴ It is hoped, too, that even when a member has acquired his land, he will remain in the society in order to benefit by co-operative sale and supply, and to use its store.

169. It should now be evident that the individualistic farm has considerable possibilities, and that there is almost no section of the agricultural community which it cannot serve in one form or another. It is the only kind of society that would, I think, be a better foundation for a rural co-operative system than the village bank. To the tenant its advantage is obvious; and to the proprietor, too, large as well as small, it has a message. To the small, it is the message of better farming. From a good co-operative farm he will get the skilled teaching and guidance that nearly every

¹ Reliable figures for the whole of Italy are at present unobtainable. Even district totals are difficult to get and have to be received with caution.

² The following *averages* may be noted :—

Membership (46 societies) = 50.

Area cultivated (33 societies) = 332 acres.

Rent (33 societies) = over £250 (21,125 lire).

³ At present exchange about £100; at par £320.

⁴ Bolton King, *Italy*, page 167.

peasant farmer still needs the whole world wide;¹ and in addition he will enjoy facilities of supply and sale denied to others. To the large proprietor the co-operative farm is a reminder that "the landlord can no longer be considered as a proud and inaccessible deity, to be served by his dependents with reverence mixed with fear."² In the Punjab the experiment might well be tried of a colony based upon a system of co-operative farms. There would probably be no better way of converting the Punjabi into a good cultivator. Moreover, it might give him the stimulus to develop his land which has now to be given by ownership. If so valuable proprietary rights might be retained by Government who could then continue to share materially in the ever increasing prosperity of the colonies. In this way the co-operative farm might even prove an important source of revenue.

170. Here perhaps this chapter should end, for the collectiv-
 The Collectivist Farm in Ravenna. tivist type of co-operative farm has little, if any, application to the Punjab; but it is so characteristic of Italian genius and represents so striking an achievement in Co-operation, that it is impossible to pass it by. It is just possible, too, that there may be some corner of India with soil congenial to its seed.³

The two districts in which the society can be seen at its best are Reggio Emilia and Ravenna. Only the latter was visited and what follows relates principally to that district. The town of Ravenna has already been described. The district with its 350,000 inhabitants stretches from the Apennines to the Adriatic, and for the most part it is so low and flat that much of it is marsh and fen, or what in the Punjab would be called 'sailaba.' This is gradually being drained, and in the last fifty years large areas have been reclaimed and put under wheat, beetroot and rice. It is this that has given the Socialist his chance, for the old lands which have been cultivated for 2,000 years are now too split up for collectivist experiments; but the wide tracts of virgin soil, demanding the rough labour of the hind rather than the intensive cultivation of the peasant, were exactly suited to his purpose. Accordingly in 1886, when unemployment grew

¹ Cf. the following extract from the New Jersey Report given in the American Report on Agricultural Co-operation in Europe, Part III:— "The conviction has been growing stronger that by dealing with the individual farm as a problem by itself, by learning of the defects in its organisation and by correcting these defects, the level of production might be raised much more rapidly than by the older method of dealing with farmers of any section 'en masse'."

² Benassi, page 8.

³ A farm on collectivist lines has recently (1921) been started at Sholapur (Bombay).

acute and strike and boycott failed, the first co-operative farm in Italy was formed. Its members were all 'braccianti' or journeyman labourers, men who were as readily employed upon a road, embankment or terrace as upon work in the fields. Nearly all the societies in Ravenna have been recruited from this class, and it is only recently that attention has been turned to the peasant farmer and the small proprietor.

171. The earliest collectivist farms were started on the same lines as Calvenzano, that is to say, each member was given a plot to cultivate for three years. This, however, led to the exhaustion of the soil, as everyone tried to get as much as he could out of the land before he had to give it up. The labourer, too, accustomed to work for others proved unable to work on his own. Pure collectivism was therefore attempted. The estate was cultivated as a whole and produce was pooled. This is the form which still prevails, though not very successfully, in the adjoining district of Bologna which was also visited. In Ravenna it did not answer, as there was no inducement to the labourer to do more than work for his wage. Accordingly a compromise was evolved which is now the system in force throughout the district.

The farm is still run collectively, that is to say, implements, machines and livestock all belong to the society, and all operations are directed by the manager. But every member receives a small plot, which varies from one to seven acres according to the size of his family and the amount of land at the society's disposal. It is manured and ploughed by the society which also does the threshing, but the labour required for rolling, weeding, and reaping, etc., is provided by the member who eventually receives one-third of the produce. This is normally sufficient to keep him and his family in grain for the year. On the debit side he has to pay one-third of the price of the seed and manure used on his land and one-third of the cost of insuring his crop.¹ Tillage must be done exactly as the manager directs, and if labour is required elsewhere, it must be given, or the defaulter will be debited with the cost of getting the work done by someone else. Plots are distributed by lot and are kept for one, or at most two years. If, as is generally the case, there are not enough to go round, those who draw blank get first choice at the next distribution. Meadow land is not divided, and in Reggio Emilia, where a similar system prevails, wheat too is cultivated collectively. It is claimed, with some justice, that this system involves no essential compromise of collectivist principle, as land cannot be retained for more than a year or two,

¹ Occasionally no charge is made for seed and insurance.

and the only effect of division is that wages are paid partly in kind instead of wholly in cash. Its advantage is obvious. By securing to the labourer a share in the fruit of his labour, it provides him with the stimulus that everyone requires to do his best.

172. The collectivist farm goes far beyond anything previously attempted on a considerable scale. Last year in the district of Ravenna there were 60 societies, and 50,000 acres, or about 20 per cent. of the cultivated area of the district was in their hands. Thanks to the large profits made during and since the war, 20,000 acres or more have been purchased.¹ Detailed figures for 26 Socialist societies show that their live and dead stock was recently valued at £100,000,² and their annual produce at over £300,000. Seventeen societies maintain stores where shopping can be done, two make their own wine and three or four do simple banking. There can be no doubt that the collectivist farm is strongly entrenched in the district, and, where it exists, it tends to absorb every other form of co-operative activity. In one village I visited it even had a Labour branch for undertaking general contracts.

173. Before so much could be achieved many difficulties had to be overcome. The two greatest were discipline and finance. No financial problem could well have been greater than for a number of men, with no other resource but the labour of their hands, to find the capital required to lease, stock and run a farm. The case of the society at Piangipane is typical of how it was done. Starting with a succession of crop-sharing leases which involved no capital outlay, the society was eventually forced by a quarrel with the landlord to launch forth on its own with a cash lease of 225 acres. Its £2 shares were then paid up in full, in cash or in labour, and those who could made a small deposit. At that moment, too, a member who was insured met with a fatal accident and the £240 paid by the company to his family was deposited with the society. This was sufficient for the caution money required to secure the rent. Implements, machines and manures were supplied on credit by the Co-operative Union at Ravenna.³ Luckily the harvest was good and a profit of £240 was made. Next year another 700 acres were rented, and to meet the increased outlay shares were raised to £8 apiece, and the 200 members undertook to pay for them as before in cash or in labour. Profit, too, instead of being

¹ In 1920, thirty Socialist societies owned 13,500 out of 25,000 acres in their possession.

² 8 million lire.

³ All Socialist societies are affiliated to a Union at Ravenna which is responsible for general organization. The Union also farms land.

distributed was added to shares. This was ten years ago. The society now has £7,500 in deposits, a common good fund of over £3,000 and another £1,000 in shares and reserve.

Not infrequently philanthropic neighbours have guaranteed an initial loan, and Peoples' Banks have also advanced large sums, spurred on by the sacrifices members so often made. At Molinella, for instance, it was agreed that 50 per cent. of wages should be withheld till the loan of the local Peoples' Bank was repaid. It was common of course for savings to be deposited, and in Calvenzano, the society described above, goods were even pawned that something, however small, might be lent. In a much newer society¹ near Mantua 500 members are said to give 15 days' free labour a year. In another² near Rovigo one day a week is given. Most collectivist societies indeed exact free labour or retain a part of the wages till harvest. If the latter fails, then, as my informant said, "it is good night to your pay."

Finance is now a much simpler affair than when members had

(b) State Aid.

to depend upon themselves for a start. Since the war the National Institute of Credit³ has advanced millions of lire at 2 or 3 per cent. below the market rate. It can do this as Government is behind it. The security for these loans is the society's livestock, equipment and produce, upon which the Institute has a lien under law. Everything is valued including even the normal yield of the land, and advances are made up to one-third or occasionally a half of the total. In Ravenna alone last year the best part of £500,000 was advanced. Other banks, not however the commercial ones, are following suit. In spite of this the demand for money throughout the country far exceeds supply, and when recently the National Institute suddenly stopped lending, progress in many places came to a standstill. This will not be the disaster it is termed, of it compels a return to older and sounder methods.

174. Even more difficult than finance is the question of discipline.

Discipline and its dependence on :—

(a) Economic need.

The collectivist farm is nothing but a factory in which work is done out of doors instead of within the four walls of a building. But there is this important difference. No work is so difficult to supervise as agricultural, and when, as often happens, members run into hundreds and, as sometimes happens, farms extend over one or two thousand acres, the problem of supervision and discipline is far more difficult than in the factory. Societies rely upon three main factors, the need for employment, the tie with Trade

¹ Sermide.

² Giacciano.

³ Described in paragraph 49.

Unionism and their own authority. It will be remembered that throughout Emilia, of which the district of Ravenna is a part, these societies originally sprang from the distress caused by unemployment. The evil has not been cured but only mitigated. Accordingly the economic need, that must be at the root of all Co-operation, still remains, and members know well enough that anything that endangers the society endangers themselves. There is therefore a predisposition to obey.

This predisposition can be given almost the force of an instinct through the tie with Trade Unionism.¹ Every member must be a Trade Unionist, and in most cases he has been so for many years before he joins a society. If so, he already knows some thing about discipline. Moreover, the closest possible touch is maintained between a society and the local Trade Union. Each is represented on the other's committee and important questions are discussed together. In one society it was stated that nothing could be done without the Trade Union's approval. The latter not only prescribes rates of wages and hours of labour, but settles disputes between a society and its members. As strikes are by no means unknown—a society I visited had just had trouble with its forage packers—the support of the Trade Union may be of the greatest value.² And in general it may be said that, without this support and without the habit of discipline formed by the Union in its members, the collectivist farm would never have reached its present development. If it is ever attempted in India, there must be some tie equally strong to take its place. None could be better than a well-developed co-operative spirit. But this is rarely found at first.

The third factor is the society's own authority. For practical purposes this means the manager and his assistants. The former directs all operations as much as if he were in charge of a factory. Far more than the president, who is always a labourer and often little better educated than his neighbours, the manager is the real head of the society.³ He, too, may be a labourer, but in that case he will be a man who has risen by force of character.

¹ Or League of Resistance, as it is called.

² Most strikes are said to be 'sympathetic' and not to last more than a few days. The packers' strike, however, lasted 12 days, and on another occasion the Trade Union committee sent to the spot to arrange things took a week, meeting every night, to effect a settlement. On the whole, though, a strike against a society is less common and less formidable than a strike against a private employer; and it is never political.

³ President and Manager are often combined, but this is admittedly undesirable.

Character is probably more needed than brain to deal with the many difficulties that arise. In one society it was clear from the manager's emphatic gestures that the task had almost been too much for him. At first, he said, members had no idea how to work together. There were endless explanations and repeated reprimands. The latter were useless. At last an example was made, and a few who refused to work were suspended for a year. After this members became more receptive, and gradually, thanks to patient teaching, a more co-operative spirit was developed. The society has now 632 members and six farms with a total area of over 1,600 acres. The most effective remedy of all is expulsion, as little or no local work can be had outside the society. To the man who would stay at home the society is indeed almost a condition of existence. For that very reason, perhaps, societies are loath to expel and it is rarely done. Expulsion is not confined to breaches of discipline. Criminal offences and even moral irregularity are occasionally punished in this way. A milder penalty is to cut wages. Once a squad of 10 or 12 members refused to dig a channel to the required depth. Remonstrance merely provoked violence. In the end the work was done, but only half the amount due was paid. It would not have been surprising if many societies had failed for want of discipline. But except in the South, where discipline is said not to exist, failure now appears to be rare. One reason for this is the strength of the party tie which, as a Socialist said, marshals people as 'for battle.' Moreover, before a society can collapse the whole resources of the party are brought to bear upon its recovery.

175. Ten or twelve miles from Ravenna, in country as flat and as heavily irrigated as a canal colony, lies the townlet of Alfonsine. Its 13,000 inhabitants are remarkable for the variety of their co-operative enterprise.

Alfonsine—

(a) Pure collectivism
and its failure.

Carpenters, masons, and transport men have all formed societies of the type that will be described in the next chapter. 200 peasant farmers have also started a co-operative farm on individualistic lines. Finally, there is a society of 785 journeyman labourers which owns and cultivates over 800 acres, undertakes ordinary labour contracts and runs a store with a turnover of £12,000. It has already been explained how the 'bracciante' of Ravenna was by nature more a labourer than a hind. Consequently it is not surprising to find labour society and farm united in a single organization. In this case the labour society came first, and it was not till its fourth year (1909) that a lease of 375 acres of rice land was taken.

The advantage of rice is that it requires more labour than capital. At first, pure collectivism was tried and no division of the land was allowed. As capital was scarce, members agreed to forego half their wages till after the harvest. When, however, the harvest came the balance sheet showed a loss and wages could not be paid. "What happened?" I asked. "Adunanza tragica—a tragic general meeting" was the reply, "and sharp division between the committee and the mass (la massa)." Ultimately members understood. It was their first lesson in the difficulties of capitalistic enterprise. The next four years saw little improvement. It was just possible to pay wages after each harvest but no more. The root of the trouble was the uncompromisingly collectivist system. This was finally abandoned, and the modified form of collectivism described above was introduced. With the outbreak of war the society prospered, so much so that last year it made a net profit of £1,000.¹ It now owns the whole of its two farms (832 acres) for which it paid £22,000. Its gross produce is valued at £11,250, and including what is paid in kind the total wage bill comes to £7,500 a year. All this has been achieved in little over ten years. Though much larger than most of the societies in the district, it is the smallest of the four I saw.

Of the 785 members only 250 have allotments, as it is useless to give a man less than what is sufficient to support him and his family. This varies from $2\frac{1}{2}$ to $7\frac{1}{2}$ acres according to circumstances. Another 450 members have been provided for by special arrangement with the proprietors of the neighbourhood, a condition of the arrangement being that they are still allowed to work for the society. Nearly 100 members have no land at all and will have to wait till the next distribution, which is done once a year. Only in exceptional cases can a plot be retained for two years. The re-allotment is carried out by the committee of the local Trade Union, partly by lot and partly by arrangement. This is a good instance of the close connexion with Trade Unionism referred to above. Members, I was told, submit to re-allotment but do not like it. Land and gold are the two enemies of the collectivist, and not till both are abolished will collectivism reign. Occasionally groups of 20 or 30 families agree to work their combined allotments as a whole; but, collectivist though the society is, this is discouraged as it is found to lead to bad work, more especially since the war, as young men now are inclined to slack. Where, as in

¹ b) The distribution of land.

agriculture, supervision is difficult, private possession or a share in the produce are needed to spur men on to work. And equity too demands this, for, as the president said, on precisely similar land one man will produce nearly twice as much as another.¹

Part of the land purchased by the society is split up into small holdings cultivated by the peasant farmer. It is here that individualist and collectivist are in mortal conflict. Labourer and peasant can no more lie down together in a collectivist society than wolf and sheep in a single field. One peasant who was in difficulties with his farm has already allowed himself to be swallowed up and converted into a labourer. The others still hold out against what is regarded as a total change of life and a loss of caste. But they are a mere handful, and it is only a matter of time before they are ousted. A collectivist society will not buy land which is already much split up, or, if it does, a separate society will be formed for the peasant farmer. But where the latter is too weak or too isolated to resist, he is absorbed or has to quit. The Catholic replies by trying where he can to split up the large estate, so the balance is preserved.

At Alfonsine wheat, beet root and maize are the staple crops. These are cultivated on modern, and indeed almost industrial lines. Machines valued at £4,500 are maintained and include a motor tractor and five threshers. Repairs are done in a large shed equipped with every kind of appliance. Each estate has two managers, one to direct agricultural operations and the other for administrative control. Another person is in charge of the 180 head of cattle that belong to the society. At head-quarters there is a general manager who controls every branch. A committee of nine, *all labourers*, meets twice a month.

General meetings are held several times a year, and it is characteristic of these collectivist societies that they are well attended. A gathering of 500 members is said to be not unusual. Contrast this with the urban bank or the village store.²

The societies of Bergamo limit their membership but not their liability. In the collectivist societies of Ravenna it is the other way round.³ Any one can join, provided he is a labourer and a trade unionist. The difficulty of finding house accommodation prevents a large influx of members from outside. All the 'braccianti' of the neighbourhood have joined, as it is their only means of securing regular work. A man can become a member for half-a-crown which

¹ The same thing is said in Tomkinson's *State Help for Agriculture*, page 28.

² Paragraphs 139 (c) and 154 (d).

³ In collectivist societies elsewhere membership is sometimes limited—Benassi, page 43.

shows how little effort is made by the members to monopolize privilege. The regular re-distribution of the land is further evidence of this. The newest member has as good a right to a holding as the oldest. Collectivism puts a severe strain upon human nature, but no one can deny its generosity. As in nearly all these societies, profit is never distributed. The most that is done is to add part of it to shares in proportion to work done during the year. This is a good way of increasing capital. Discipline has been tolerably maintained and since the start only ten members have had to be expelled, some for disobedience, others for moral irregularity. Altogether the society is a remarkable achievement, but not more so than the other societies visited.

176. The objects of Co-operation have been admirably defined as "better business, better farming and better living."¹ The collectivist farm satisfies all three. We have already seen how its discipline may affect character. It is clear, too, that large bodies of men cannot be taught to work together for what is essentially a good purpose without learning much that is valuable. The co-operative farm has undoubtedly had a steadying effect upon the labourer, and where once there was agitation and discord there is now comparative peace and contentment. The labourer has in fact learnt some of the difficulties of the capitalist.

As to 'better farming' all observers acknowledge improvement, and Catholic and Socialist alike agree that this is more marked in the collectivist than in the individualistic farm.² At first sight the collectivist farm is simply the factory system applied to the land. Everything is done on the largest possible scale with the fullest application of machinery and science. But, though methods are industrial, aims are the reverse. The factory's sole object is maximum *profit*,³ the farm's maximum *yield* in cash or in kind. The factory cares nothing for maximum yield unless it coincides with maximum profit. The farm, provided there is no positive loss, cares little for maximum profit if it means reducing the yield. Springing from the distress caused by unemployment its object has always been to provide as much work as possible for its members. Accordingly it seeks not gain but subsistence, not the maximum yield per man, which has been described as the apotheosis of the factory theory,⁴ but the maximum yield per acre. Subsistence too, not gain, is the primary object of the small peasant proprietor. Thus, despite methods

¹ Sir Horace Plunkett, *Rural Life Problems of the United States*, a most suggestive book.

² For instance, see Benassi, page 48.

³ i.e., net profit.

⁴ *Better Business*, November 1920, page 36.

that are diametrically opposed, peasant proprietor and collectivist farm are united in aim. The only difference is, the peasant proprietor has a small family to feed, the collectivist farm a large. Desiring the largest possible yield, the latter has been obliged to develop its lands to the utmost. A good instance of this is an estate bought by the Union at Ravenna for £6 an acre and now, after reclamation and improvement, valued at £60. Many are the acres that have been reclaimed by co-operative farms ; but even where cultivated land is taken it is probable that production is increased, as up-to-date machinery is introduced and expert guidance is available, if not on the farm itself, anyhow at Ravenna where the local Union maintains two graduates in Agriculture to advise its affiliated societies.¹

If evidence of 'better living' is desired the villages of

Piangipane and Mezzano should be visited.

(c) Better Living. In both theatres are being built, mainly out of undistributed profit. One, when I saw it, was almost complete and had cost £6,000.² A local artist had been employed to decorate its walls with frescoes, in which the 'braccianti' could be seen as nature made him, playing classical instruments in not very classical attitudes. Yet these two villages are no bigger than the larger villages of Rohtak and Hissar. One has 6,000 inhabitants, the other only 4,000. Vast profits have been made during and since the war. In 1919 Piangipane made nearly £4,000 out of 1,588 acres. The farms have profiteered like anyone else who had the chance, but they have applied their profits more wisely than most. Common good funds have been formed in one case amounting to £3,000. In one society schooling is given to members' children during the summer. In others milk was supplied during a period of scarcity. Some give medical assistance, others insure their members against old age. These are the fruits of not distributing profit. At Piangipane, where so much was earned, members loudly demanded distribution but, as my informant said, fine speeches were made and people went away content. The question is how long will they remain content. As societies increase in substance, the old Adam of individualism may spring up lustier than ever, and it is significant that already here and there are signs of a rift between Trade Unionism and Co-operation, which is suspected of being ultimately based upon private property. Meanwhile the Collectivist Farm is probably the high water mark of agricultural Co-operation in Europe.

¹ Each society contributes to the Union 1/5 per cent. of its rent subject to a minimum of 2/6.

² ½ Million lire.

CHAPTER XII.—The Labour Society.

177. If the collectivist farm has a rival in achievement, it is the Labour Society of Italy. In its simplest form its object is to eliminate the contractor and undertake contracts in his place, whether for making a road, building a hospital, or constructing a railway. In its more developed form it aspires to operate factories and mines. "We are not going to allow any profit to be made in this industry" say the miners of Great Britain. "We will absorb all the profits and we will increase our wages to the point where the least fraction of profit is absorbed."¹ Broadly that, too, is the ultimate object of the Labour Society, but whereas the miners propose to attain it by slowly sucking the owner dry, the Italian labourer is trying to achieve it by the co-operative society which takes the place of owner or contractor, as the case may be. Four lignite mines and three or four iron and steel foundries, started during the war, have recently been taken over from Government. Co-operative glass furnaces and printing presses are already working successfully, and a variety of other enterprises have been undertaken. Of these the most ambitious are societies of metal workers formed to repair and even to build ships. Genoa is the centre of this scheme.² If these enterprises succeed, Italy will have given a lead which the rest of the world will do well to follow. Intensely interesting and deserving of study as all these experiments are, I confined myself to the labour as opposed to the industrial side of the movement, for the one is the foundation of the other, and at present the simpler forms have more to teach India than the more developed.

178. Though the movement is 40 years old, it is only 20 years since it began to take root. At the end of 1920 there were about 2,500 societies, of which nearly $\frac{3}{4}$ belonged to the Socialist organization. Since the war growth has been extremely rapid, and the root cause of this is said to be the desire for independence, which is a profound and widespread effect of the war. Another and more obvious cause is the lavish assistance given by Government through the National Institute of Credit. Government has been quick to realize that there is no better sedative for industrial ferment than the Labour Society. Seventy-five per cent. of the members

¹ Mr. Hodges before the Royal Commission on April 25th, 1919.

² Negotiations are now on foot for the transfer of the arsenals at Naples and Venice (no longer required) to the Co-operative Union of Metal Workers which proposes to convert them into factories for making agricultural machinery—*La Cooperazione Italiana*, 3rd June 1921. It would be a happy omen if through Co-operation the sword is finally beaten into a ploughshare.

of the latter are urban, and for the most part only labourers and wage-earners are admitted. But as societies grow and their functions become more complex, Labour finds itself less and less able to dispense with the education and capacity of the intelligenzia, and there is consequently a tendency to widen the conditions of membership, and for 'manual' labour to seek alliance with 'intellectual,' for the hand in fact to call in the assistance of the brain.

179. Difficulties have turned principally upon funds, management and discipline. On these three points there is not much to add to what has already been said in connexion with collectivist farms, which in broad outline the Labour society resembles. The National Institute is now as essential a factor in the progress of the one as it is in that of the other. In the six years ending with 1919 it financed works to the value of 366 million lire. With few exceptions only contracts with public bodies are financed, as the sole security for loans is the payment order for work done. By agreement with the society these payment orders are made out in favour of the Institute instead of the society. The Institute can then cash them and repay itself from the proceeds. In anticipation of the issue of a payment order it will advance up to $\frac{9}{10}$ ths of the amount certified as due to the society. The first loan of all, however, has to be made on no better security than the moral guarantee of the members. But no advance will be made until project and estimates have been carefully checked by a member of the bank's engineering staff, who satisfies himself that the work is sound and likely to be properly executed. Further, so far as an initial loan is required for supplies, *viz.*, implements, machinery and the like, the money is not handed over to the society but is retained by the bank which pays the bills direct. As yet there has been no loss, and as nearly all work is executed for Government or local bodies, the payment order system is both simple and effective. By many, if not by most, State aid in one form or another is considered essential. But it should generally be possible for a new society to start with small contracts which can be financed by local effort. The two societies shortly to be described are instances of this, and it may be confidently stated that, if work is well done from the start, a society will prosper.

Management has been a source of greater difficulty than finance, especially in the South. Too often the wrong type of manager has been engaged and then insufficiently controlled. As everywhere else, the war has temporarily slackened 'morale' and dishonesty has increased. Not infrequently societies have fallen into the hands of contractors who, having lost their work through these societies,

have obtained employment as their managers, a position they then proceeded to abuse. The only remedy for this is careful selection at the outset combined with regular control. The Catholics claim to have a monthly audit but few Socialist societies have hitherto had any audit at all. The collectivist farms are in the same case, but in Ravenna at least, general meetings are frequent and members are said to scent out an irregularity at once. In a Labour society the regular hours of work make it difficult to get members together more than once or at most twice a year. It is all the more surprising therefore that so many societies succeed. As often as not, it is due to a manager who is himself a labourer, and it speaks much for the capacity latent in 'the masses' that so many societies have found their managers amongst their members.

In regard to discipline, the tie with Trade Unionism is, if possible, closer than in the co-operative farm. In both, wages and hours of labour are fixed by the Labour Exchange,¹ which is a joint organization of all the local Trade Unions, each of which is represented on the committee. Once a year, after consultation with the employers' associations, a schedule of wages is drawn up for each class of labour. The disadvantage of this system is that it demands a high standard of discipline to keep men up to the level of their wage, and discipline is more difficult to enforce in a co-operative society than under an ordinary employer. On joining a society a man is apt to look upon himself as a 'padrone'—as master instead of servant and, as some one said, he is no longer kept in his place by the stick. Accordingly, though technically a Labour society is as efficient as any other form of organization, its output of work is probably less. This, however, is a small price for the community to pay for the greater freedom and contentment of the wage earner; and in the long run, by improving conditions of work and by reducing strikes, Co-operation may even increase production. Meanwhile it would perhaps be an improvement, if societies adopted the rule in force in a co-operative glass works visited near Venice, and obliged applicants for membership to serve a probationary period, much as apprentices did in the mediæval guild.

180. Labour societies must not be confused with either the mediæval or the modern guild. Of the two the latter is more akin, but there is a wide difference, as at present the newly-formed English Building Guilds supply nothing but their labour. Implements, materials and even money for wages have so far

The Modern and the
Mediæval Guild compared.

¹Camera del Lavoro.

been provided by Government.¹ If, however, they succeed they will probably develop into co-operative Labour societies, as their aims are fundamentally the same.² On the other hand the mediæval guild bears only the most distant resemblance, as it undertook neither trade nor craft, but merely prescribed rules to secure a monopoly of work for its members and a proper level of efficiency for the community.³ The Labour society also aims at monopoly, and this is its greatest danger, for few can work their best without the stimulus of competition.

181. The rest of this chapter will deal with the district of The Movement in Ravenna. Ravenna which has already been described.⁴ The Labour society there is as strongly developed as the co-operative farm. In the town alone there are a dozen or more societies and the contractor has now been entirely eliminated. The last survivor was bought out a year ago. In the whole district there are 75 societies, all with limited liability.⁵ Membership varies from 9 to over 3,000, but not more than a score have over 100, while more than half have less than 50 members. A society indeed may be as large or as small as is desired. 'Braccianti' or navvy societies preponderate, and 90 per cent. of this class of labour are now co-operators. Other categories are :—

Cement workers and masons.
Joiners and carpenters.
Varnishers and whitewashers.
Stone and marble masons.
Glass workers.

Metal workers.
Porters.
Dockers.
Sailors.
Carters.

Forage packers.

Every society is affiliated to the Socialist or to the Republican Union at Ravenna. The former is not only responsible for organization, guidance and control, but also undertakes contracts like any other Labour society. In 1919, for instance, it executed work to the value of £60,000.⁶ Its activities have extended as far afield as Sicily and Calabria, where it helped to rebuild the towns shattered by the earthquake which destroyed Messina. The Union was brought in to 'down' the extortionate Southern contractors, as there was no local society to do this.

¹ In future the Co-operative Wholesale and Insurance Societies will probably make Government assistance much less necessary.

² So far only a dozen contracts have been made, but the movement is already spreading to the packing-case and furniture industries—*The Economist*, 2nd July 1921. See also an article in *The Venturer* for October 1920.

³ Staley, *Guilds of Florence*.

⁴ Paragraph 170.

⁵ Not all are pure production societies. Some, perhaps 25 per cent., merely allot work like the Tailors society described in paragraph 113 (d).

⁶ Five million lire.

Difficulties at first were almost insuperable. The local navy was neither intelligent nor honest. The contractors, too, declared war. They put it about that men from Ravenna had come to take the bread out of Sicilian mouths and were going to be paid a higher wage as well. Thanks, however, to the help of the local Socialists a society was eventually formed under a reliable manager from the North. Happily a substantial profit was made and at the end of the year, to create a good impression, it was decided to distribute half of it as dividend. At first the Sicilian could not understand what was meant. Surely the society would keep the profit as had always been done before. After much explanation he understood, and with that the contractors were beaten.

182. The largest Labour society in Ravenna and the oldest in Italy is the 'General Association of A Labourers' Society. Braccianti,' or manual Labourers.¹ It has the further distinction of having been the first society in the country to undertake co-operative farming. Founded 40 years ago with 300 journeyman labourers of the type described in the last chapter, it now has 3,700 members, all inhabitants of Ravenna and its neighbourhood, and except for its size it is typical of the many 'Braccianti' societies in the district. Its object was to eliminate the contractor by taking contracts itself—no easy matter, as in those days all public contracts were auctioned.² The society found itself repeatedly outbidden by the contractor speculator, who would then tempt the best labourers away by high wages. A long struggle followed and it is such struggles that test a society's mettle. For some time work was confined to roads, embankments and terraces; but eventually building contracts were obtained, and work that could not be done by a navy was given out to societies of carpenters, joiners and masons. In 1919, 22 works were under construction, including an overhead railway bridge for the station at Ravenna, and the total value of the work executed during the year was £ 15,000.

In 1886, to provide more work for its members, co-operative farming was started and now 2,250 (a) Co-operative Farm- acres are cultivated. Of this, 1,500 acres ing. are actually owned and as much as £100,000³ was paid for the largest property acquired, an estate of 1,000 acres. The first year pure collectivism was tried, but proving a failure individual holdings were allowed. This led to exploitation of the land, and finally the modified form of

¹ Except in so far as he does field labour the 'bracciante' is simply a navy.

² Now private treaty is allowed as with leases to co-operative farms.

³ Two and a half million lire, converted at par, as in 1918, when the land was bought, exchange had not been much affected.

collectivism described in the last chapter¹ was applied with good result.

Unquestionably the society's greatest achievement is the reclamation work done in the Campagna round Rome and at the mouth of the Tiber. (b) Reclamation of the Campagna. . . Started in 1882 it was not completed till 1905 when a large tract of land was finally drained and colonized. No work could have taxed endurance more. The Campagna was then a death trap and its swamps a by-word. Fever raged, and first and last 400 died. But the work was done and, thanks to the Braccianti of Ravenna and to others, Rome, once the unhealthiest capital in Europe, became one of the healthiest.

With two exceptions, management and control are entirely in the hands of the labourers themselves. (c) Management and moral effect. One exception is the graduate in agriculture who looks after the farms, and the other is the general secretary who was one of the founders of the society. The son of a miller and now member of parliament, he was the first to see the possibilities of Co-operation in Ravenna and no one has done more for its development.² Every village round Ravenna is represented on the society's committee, which works without payment. Paid officials attend its meetings but may not vote. Capital was raised at the start by 8 shilling shares and 'a loan of Grace,' to which sympathizers contributed 10 lire each. For ten or twelve years no profit was distributed and now there is a common good fund of nearly £2,000 from which 100 members who are too old to work are given 25 lire a month. A point to notice is that the society was started before there was any Trade Union in Ravenna, which shows that, where need is great and feeling good, the Trade Union is not indispensable. Expulsion has been rare but has occasionally been applied to punish malingering and immorality. On one occasion a member who had stolen firewood saved himself from expulsion by returning it. He was suspended for six months instead. For India, the most encouraging feature of this remarkable society is that at first 80 per cent. of its members could neither read nor write. A member who joined in 1887 said it was impossible to conceive the difference between now and then. Illiterate 'Braccianti' would come hat in hand to the society's tiny office and ask for orders, and were surprised beyond measure to find things discussed with them instead. The educational effect of this, he said, had been profound.

¹ Paragraph 171.

² His name is the Hon'ble S. Baldini.

183. The special interest of the 'Braccianti' society is

A society of Masons and Cement-workers.

(a) Membership and achievement.

that it shows how Co-operation can be applied to a class of labour which is common throughout India. Of its application to more skilled labour it would be difficult to find a better example than the Socialist society of Masons and Cement-workers at Ravenna. There are about a score of these societies to be found in the district. This one started nearly 20 years ago with only 32 members. Now it has 402 in spite of a split which took place in 1912, when the Republicans left in a body to found a rival society, which characteristically occupies premises in the same street. Only masons and cement-workers living in or near Ravenna are admitted. No outside work may be taken, so that the society is a member's sole means of livelihood. It is in fact a pure Production society like the German cabinet-makers society described in Chapter 9, differing from it, however, in size as mountain from mole-hill, and also far more truly co-operative.¹ Though the society has gained position and comparative wealth, membership can be acquired for a few shillings which can be paid at the rate of 6d. a month.² Share payments provided nearly all the money that was required at first, as dealers supplied whatever was needed on credit, and as soon as work started payment orders could be pledged. As is so often the case in Co-operation small beginnings have produced great results. A chemical manure factory is now being built for the district co-operative Supply society at a cost of £70,000, and a palatial municipal market for £60,000. In 1919 work to the value of £10,000 was done, and last winter the weekly wage bill was £600. The society is run almost entirely by the members themselves. Power rests chiefly with the two general managers, one a mason and the other a cement-worker, but the committee is also important and meets two or three times a month. Absentees have to give their reasons in writing, and those who are ten minutes late are sconced a flask of wine. Each member takes it in turn to supervise the work of the society for a week. For this only bare expenses are paid.

The chief object in forming the society was to oust the contractor, who not only pocketed the profit but employed the able-bodied and left the weak to fend for themselves. This he was able to do as unemployment was rife. As we have seen, it is the property of Co-operation to protect the weak against the strong, and when applied to production it seeks to give every one a fair share of all available work.³ This is still important as even

¹ Paragraphs 114 and 115.

² Members in arrears with any payment are not allowed to vote at a general meeting. A good rule where it can be enforced.

³ Paragraph 113 (d).

now work is often short. When this happens members take it in turn to work. In summer a man is entitled to be employed for two months at a stretch, but in the three winter months this is reduced, if necessary, to a fortnight. In these months, too, only seven hours a day are worked instead of eight. A member told me that he used to have to work ten hours a day at 21 centesimi or less than a farthing an hour. Now he gets a minimum of 3.28 lire which, measured in money, is 15 times as much. A comparison of the society's rates for 1915 and 1921 shows that wages have increased eightfold.¹ As prices are only four or five times as high as they were, the workman in this society is much better off than he was before the war. For men there are a dozen different grades of pay, and two more for those who are not up to the mark. Classification is done once a year by the committee assisted by specially selected members. Members are divided into squads, each under a foreman who is responsible for all implements and materials used, for the correctness of the pay sheet and for general discipline. Time, not piece work, is the rule, as the latter is considered to savour of 'sfruttamento'.² Differentiation between good and bad work is therefore difficult. No one may work overtime or on Sundays, a rule, however, which is applied with indulgence. No holidays are given on full pay, nor, for fear of shirking, are wages paid during illness, but men who are partially incapacitated are given light work. Members, too, are insured, and there is a provident fund for the aged and the infirm. For instance, a member who is blind is now getting 15 lire a month. To encourage corporate feeling, when a member dies, the funeral is attended by the society in state with its banner, a red flag embroidered with the symbols of the craft.

Discipline is maintained in the usual way. If a man refuses to do a bit of work, or gets drunk and disorderly, or if there is a fracas with sticks or a customer is abused, the offender will be fined or have his wages reduced, or he may be temporarily suspended.³ Only in extreme cases will he be expelled. But on the whole the need for work keeps a man soberly to his tools, especially as behind the society is the autocratic figure of the Trade Union. All

(c) Discipline.

			1915.	1921.
1st category	...	...	0.55 lire	3.97 lire
2nd "	...	...	0.48 "	3.72 "
3rd "	...	...	0.36 "	3.41 "

Each category contains 4 grades: the figures given are averages. For Germany cf. paragraph 115 (c).

² A word generally used by the Socialist in speaking of one man or class exploiting another.

³ Chatter (*schiamazzo*) and excessive drinking and smoking are forbidden by rule.

members must belong to the union, and so identical are the two in interest that expulsion from the latter automatically involves expulsion from the society.¹

184. After eliminating the contractor it is an important object of the Labour society to obtain a monopoly of the labour of its craft or industry, in order, firstly, to prevent competition between its members and, secondly, to secure a fair distribution of work between weak and strong. Materially the more efficient workmen have more to lose than to gain by joining a society, and unless they are men of generous instinct they will prefer to fend for themselves outside. It is then that many societies are tempted to apply illegitimate pressure to bring them in. In one society I visited it was admitted that the boycott had been used for the purpose, and that the Trade Union had helped the society by refusing work to those who would not join it. Last year four or five men had been forced in this way to come in. Societies that do this are little more than the shadows of their Trade Union, and it is a serious defect of the Labour society that, being so closely allied to Trade Unionism, it is apt to care more for monopoly than for efficiency, and for wages than for work. Viewed in this light the possibility of a rift between Trade Unionism and Co-operation, to which reference has already been made,² is not necessarily a matter for regret.

185. If the tie with Trade Unionism has been stressed both in this chapter and the last,³ it is because it is at once the strength and the weakness of the Production society in Italy; and if it is sought to introduce the latter into India, some substitute will have to be found to take its place.⁴ At present it would seem very doubtful whether this form of society could be applied to any class of Indian labour. At the same time the contractor makes as large a profit in India as in Italy. Moreover, now that there is so much talk of the industrial development of India, it is of the highest importance that the desolating evils of the industrial system in Europe should be avoided. If things take their natural course, they are likely to be repeated with all the aggravation that a hot climate and a low standard of education are capable of producing. The most earnest attention should, therefore, be devoted to any movement like Co-operation which sees in the welfare of the worker more true wealth than any increase however great in the *material* wealth of the country.

¹ Shares are not returned in the event of expulsion, nor even on withdrawal unless due to change of residence or profession.

² Paragraph 176 (c).

³ Paragraph 174 (b).

⁴ A Labour society has recently (1921) been started in Broach (Bombay Presidency).

Conclusion—The Co-operative Spirit.

186. In this concluding paragraph I desire to strike a single note. Co-operation, of which so much has been said, is something more than a system. It is a spirit, an attitude of heart and mind, never more needed than it is to-day. 'The conquests of the secrets of nature' says a recent writer speaking of the present condition of the world,¹ 'is child's play in comparison with the overcoming of the difficulties of human co-operation.' Yet, as in the hour of need men turn instinctively to religion, so now in the hour of economic need men are turning more and more to Co-operation, for Co-operation is religion applied to business. It is not that business is immoral, but that the Capitalist or profit-seeking system which prevails is dominated by the fundamental law of its being, that the maximum profit and nothing but the maximum profit must be earned. No system has ever been more efficient for production or more unequal for distribution. By its very nature it is unable to protect the weak against the strong, the many against the few or the community against the inevitable strife of Labour and Capital. On the other hand it is of the very essence of Co-operation to strengthen the weak, protect the community and give fair play to all. Great the task, but fair the prize. To gain it one thing is indispensable. Societies innumerable may be founded, vast enterprises may be undertaken, but if the co-operative spirit is lacking, ultimately all will be 'as sounding brass or a tinkling cymbal.'

Again and again in this report² we have seen that effort has failed, or success has vanished, or an operation has not been attempted, for lack of the loyalty, good fellowship and corporate feeling so well expressed in the old phrase 'each for all and all for each', which is the very embodiment of the co-operative spirit. How then can this spirit be gained? 'The wind bloweth where it listeth,' yet even the wind, as sail and windmill show, can be made to serve human need. Both in Germany and in Italy the greatest stress is laid upon teaching and training. In Germany, as we have seen no one is allowed to work amongst co-operative societies, until he has mastered both the principles and the practice of Co-operation;³ and in both countries, more and more effort is being made to ground the leading members and officials of the societies themselves, not only in their duties but also in the aims and objects of the movement. In India with her 47,000 societies and her host of illiterate co-operators the task is infinitely greater. But India has two advantages. In

¹ In the *Manchester Guardian*.

² See the many references in the Index under *Co-operative Spirit*.

³ See paragraph 33 (a).

each province every type of society, whether of town or country, producer or consumer, is united in a single organization.¹ There could be no better medium for the co-operative spirit. The second advantage is less obvious though almost as important. The best way to imbue simple men with the co-operative spirit is to bring them together to discuss their common needs. In India for the most part villages are so small and compact, that general meetings can be held much more easily than in most parts of Europe; and it is significant that alike in Germany, Italy and Ireland, wherever general meetings were found to be well attended, the society was always good. This too has invariably been my experience in the Punjab.²

But teaching, training and general meetings are not in themselves enough. Leaders must be found and they must be genuine co-operators. In Co-operation personality is everything, for like all spiritual forces it demands the whole man. Brains, learning and experience are not sufficient. There must also be an ardent desire to help the individual and to serve the community, to fight to the death what a great writer has called 'the devilish doctrine of every man for himself.'³ In the three countries I visited nothing impressed me more than the character of the men at the head of the movement—men essentially practical yet inspired by an ideal, as broad in sympathy as in outlook, understanding their work thoroughly and performing it devotedly, and withal enthusiastic and capable. These are the true guardians of the co-operative spirit and in no country will Co-operation be strong until it has drawn such men to its service.

¹See paragraph 27.

²One of the greatest dangers which threatens successful enterprise is the tendency to hold general meetings as infrequently as possible and for them to be very badly attended.—Smith Gordon, *Co-operation in Many Lands*, volume I, page 162.

³A. E. (George Russell), *The National Being*, page 126.

Appendix—Miscellaneous Points.

A few loose threads may conveniently be gathered up here :—

Under German law 10 per cent. of net profit must be carried to reserve, but nearly every society visited had one or more supplementary reserves. In Raiffeisen village banks all profit remaining over, after the necessary allocation has been made to the statutory reserve, is vested in a fund called 'The Foundation Fund.' This is maintained partly as a second line of defence against loss, partly to make the society financially independent and partly to create a common good fund for the benefit of the members. Other village banks have a supplementary reserve to prevent the balance sheet showing a loss, for by wise provision the statutory reserve can only be drawn upon to make good a loss shown in the annual balance sheet. The effect of this is that any loss affecting the statutory reserve is automatically brought to the notice of every member of the society. Many trading societies have a third fund for bad debts, and often carry all their profit to reserve for the first 5 or 10 years. In these societies, too, there is almost always a latent reserve due to premises, plant, machinery and stock being written down in the balance sheet far below their actual value. This practice I found to be common alike in Germany, Italy and Ireland. A good example of it is a vine-growers society on the Moselle which, owning a fine wine cellar equipped with expensive machinery and 120 casks worth 1,000 marks each, had entered the whole in its balance sheet at 8 marks. This is characteristic of all the vine-growers societies I saw, and is due to a rule prescribed by the local Raiffeisen Union that 50 per cent. of the profit must be applied to writing down plant and machinery till their whole cost has been discharged. In Bavaria much the same principle is applied, and one of the granary societies I saw had valued its costly four storeyed elevator at 1 mark and its 12,000 sacks, worth probably 5 marks each, at the same figure. This practice has two advantages. Firstly, a large latent reserve is built up which may be invaluable in time of need. Secondly, if a substantial profit is earned, it conceals the fact from members whose cupidity might otherwise be excited. Throughout Germany the greatest importance is attached to reserve, and two good instances of its value are given in Chapter 9.¹ It is universally agreed that it cannot be built up too fast, and though it may easily be too small, it cannot be too large. It is mainly owing to this

¹ Paragraphs 113 (e) and 115 (d).

policy that societies have been able to meet their heavy loss upon war loan stock.¹

It only remains to add that societies are allowed to employ their reserves as they please. In the Punjab this right is subject to restriction, as a reserve is not only required to guard against loss but also to provide cash in an emergency. In Germany the more developed banking system makes this unnecessary.

In Germany every member has the right of withdrawal from his society subject to notice, which under law may not exceed 2 years. In Italy the right is only conceded if a society decides (1) to amalgamate with another society, (2) to increase its share capital or (3) to change its objects. The right, too, has to be exercised within a limited period, which is only 24 hours if the member concerned was present at the general meeting sanctioning the change. Apart from this, withdrawal is only allowed with the sanction of the committee.

The German point of view is that a co-operative society is a voluntary association and that people would be less eager to join if they had to remain members against their will. At the same time, in the case of societies undertaking heavy liabilities, *e.g.*, Granaries, Creameries, House-building Societies, etc., the practical disadvantage of the right is admitted, and a few societies, though co-operative in aim and spirit, are registering themselves under the ordinary Company law in order to avoid the risk of a sudden withdrawal by a number of their members. The danger can be minimised by prescribing the maximum period of two years for notice of withdrawal.

In Italy, liability (if not unlimited) is limited under law to the value of the share which must not exceed 100 lire (25 shillings). In Germany, as in the Punjab, the extent of unpaid liability is entirely at the discretion of each society; but unlike the Punjab a second share cannot be bought till the first is fully paid, and any further purchase is subject to a similar proviso in regard to the last share acquired. This is a useful precaution and should, I think, be adopted in India to prevent the possibility of finance being based upon what might otherwise only be paper liability.²

In Germany the acceptance of deposits by non-credit societies is discouraged. In Raiffeisen societies it is forbidden, and in those affiliated to the Imperial Federation it is said to be

(b) The Right of withdrawal.
(c) Limited Liability.
(d) Non-Credit Societies and Deposits.

¹ See Introduction paragraph 8.

² Cf. Paragraphs 17 (a) and 39 (b).

exceptional. The reason for this is that only banking societies are thought to have the necessary experience for dealing with deposits. In India I would only allow trading societies to accept them from their members.

In every respect but one the Indian co-operative credit system may be said to be modelled upon the German. The exception is the Board of Supervision. This board or council is now a feature of nearly every co-operative credit system in Europe.¹ Special pains were therefore taken to ascertain how it worked. In Germany it exists in every form of co-operative society, and it is entrusted, on behalf of the general body of members, with the supervision and control of the executive committee. Expert opinion is agreed that it serves a useful purpose.² In very small societies it is probably superfluous, but in the ordinary society which consists of from 50 to 150 members, it means more experience in council, better work by the committee and at the same time less responsibility for them. The board's chief duty is to satisfy itself that the annual balance sheet and general accounts are correct, and for this purpose some kind of audit must be done. In a trading society stock has to be carefully checked and valued, and in a credit society the position of all debtors and their sureties is reviewed. In addition, during the course of the year definite duties have to be discharged which vary with the class of society. In many house-building societies the more important questions have to be determined by the committee and board sitting together. In urban banks credit transactions usually require the approval of the board or of a sub-committee of its members, and Mr. Wolff goes so far as to say that everything hinges upon the way it performs its duties.³ In the tailors society described in paragraph 113 the heavy loss incurred was partly due to insufficient control by the board of supervision. Individual boards naturally vary in efficiency. In Bavaria and in the Raiffeisen societies of the Rhineland 25 to 30 per cent. are said to be first rate, and in the latter area, thanks to constant training, only 15 or 20 per cent. are bad. In Bavaria the proportion of useless boards is twice as high.

In Italy every society is legally bound to have a body of three 'Sindaci' or Syndics (with two deputies) who have almost

¹ Wolff, *Co-operation in India*, page 169.

² The able authors of *Co-operation in Many Lands* (page 167), quoting the acknowledged authority of the late Professor Wygodzinski, are not very favourable to the Board of Supervision. It should therefore be stated that most of the secretaries and members of committee whom I consulted, men who have to work under its supervision, were decidedly in its favour.

³ Wolff's, *People's Banks*.

exactly the same functions as the corresponding board in Germany. In this connexion it is interesting to recall that a mediæval cloth (Calimala) guild of Florence used to appoint three 'Sindacatori' to check the guild accounts and bring all irregularities to light.¹ Nearly all the authorities I consulted were agreed that the modern Syndics are not of much value. In the rural societies it seems to be difficult to find practical men with sufficient business capacity for the post. But even in the well equipped People's Banks it is a question whether they are an advantage. One reason, probably, why the system works better in Germany than in Italy is that in the former external control is closer and every one works correspondingly better.²

The position in both countries has been described at length, in order that those concerned may be in a better position to judge how far, if at all, the board of supervision should be introduced into India. In the ordinary small village bank it is neither possible nor necessary. It is usually difficult enough to staff the committee. It might, however, be of value in the central bank provided it were combined with a small managing committee. It is a grave defect of central banks in the Punjab that so many have official presidents. A frequent reason for this is personal rivalry. This might sometimes be adjusted by making one aspirant to office president of the committee and the other president of the board. In urban banks, too, and in the larger trading societies the experiment of having a board should, I think, be made, for where good men are available German experience is emphatically in favour of the system.

The final point to be mentioned is a system in force in Germany, adopted from Austria and Switzerland, by which any individual, firm or association can, under certain conditions, transmit money without limit of amount to any part of Germany for 10 pfennigs, now worth less than 1/10th of a penny. All that is necessary is to open an account at a postal cheque office of which there are 13 in Germany. This can be done by making a permanent deposit of 25 marks. The account once opened can be operated through any post office in the country. Thus, if *A* at Coblenz pays in 1,000 marks at his local post office for payment to *B* in Jena, who keeps his postal-cheque office at Berlin, the post office at Coblenz sends the payment card (by which the payment is made) to Berlin. Berlin places 1,000 marks to the credit of *B* and informs him by sending him a counterfoil of the

(f) The German Postal
Cheque System.

¹ Staley, *Guilds of Florence*.

² Italian societies have also three 'Probi Viri' or arbitrators to settle disputes but they are little used.

payment card. The latter also records anything else which the person making the payment wishes to say and so spares him the trouble of a separate communication. Moreover, whoever has an account can operate it by cheque, provided he does not draw more than 20,000 marks at once. On each cheque the only charge is 1 pfennig for every 100 marks drawn. Every client receives on the following morning, post free, an extract of all entries which have been made in his account the day before. In this way he always knows how his account stands. In May 1918 the number of people with accounts was 205,000 and their deposits amounted to 765 million marks. This shows its value. To a vast country like India, where banking is so imperfectly developed, a system of this kind would be invaluable, and in making money more fluid it would be of the greatest advantage to co-operative societies, to whom the transfer of money is often a matter of considerable difficulty. If Government is prepared to consider its introduction, further details can be supplied.

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